



House of Commons
CANADA

Subcommittee on Fiscal Imbalance of the Standing Committee on Finance

SFIS • NUMBER 006 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Friday, March 11, 2005

—
Chair

Mr. Yvan Loubier

All parliamentary publications are available on the
"Parliamentary Internet Parlementaire" at the following address:

<http://www.parl.gc.ca>

Subcommittee on Fiscal Imbalance of the Standing Committee on Finance

Friday, March 11, 2005

•(1310)

[English]

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

Mr. Prue, you will be allowed 10 minutes to explain your point of view. After that we will have some questions from members of every party in the House of Commons.

[Translation]

The floor is yours Mr. Prue.

[English]

Mr. Michael Prue (MPP, Finance Critic, New Democratic Party of Ontario): Thank you very much, Mr. Chair and committee members.

I am here to speak on behalf of the New Democratic Party of Ontario about the fiscal imbalance in this particular province.

Quite frankly, I think it's trite to say that there is a fiscal imbalance. I don't think anyone from any of the three parties in Ontario is denying it. In fact, there was a vote in the legislature that was unanimous. All members agreed that we need to speak, and we need to try to get a better deal. Where there is a divergence of opinion is on how that is to be delivered.

Quite frankly, the members from my party believe that the imbalance is large and is growing. We have no quarrel with the \$23 billion being cited by numerous sources because we know that people in Ontario pay some \$84.9 billion in taxes; the federal government returns in spending in Ontario some \$48.5 billion; and we know that we are responsible for paying some \$13.5 billion in debt. When you take those figures and massage them, work them out, the \$23 billion does seem to be appropriate.

However, we do have some difficulties—and I want to get into those—with how this imbalance might be corrected. We know that the Finance Minister and some others have spoken about individual programs, trying to get additional moneys for Ontario from those programs. They cite, as an example, the case of immigration. In Quebec, the average amount per immigrant given is \$3,806, versus \$1,900 in the rest of Canada, versus \$819 for immigrants who end up in Ontario.

But the reality is, of course, that Ontario has never signed an immigration accord; it's the only province never to have done so. How do we expect to get money like the other provinces when we do not have an immigration accord?

I have stood in the House many times and talked about the imbalance; it is no one's fault, save and except our own. I worked in the immigration department for some 20 years before becoming an elected official—first a mayor and then later an MPP—and I'm fully aware of the details of the Canada-Quebec accord. In fact, it was one of my responsibilities in Hull, Quebec, to enforce the accord with the Province of Quebec.

Ontario has chosen not to sign the accord. I cannot think that anything can be done to bring Ontario up to the national average—never mind what Quebec gets per immigrant—until it does so. And just yesterday I read a small newspaper article in which the Minister of Citizenship and Immigration in Ontario said she's not willing to accept the deal offered by her federal counterpart because the moneys do not flow fully until the end of the five-year period. Notwithstanding that, we think Ontario has an obligation to sign the accords and to live up to them.

We know that for the other accords they're seeking money for—the health transfer, the Canada social transfer—it's not being sought so much for health or for the benefits of the social transfer but to obtain the billions of dollars that would be the means to do other things. They're talking about employment insurance. Canadians in Ontario get only \$5,060 on average for social insurance versus \$7,930 on average in the rest of Canada. They talk about an imbalance of some \$858,000, but this is not money that would flow to the government, of course.

We in the New Democratic Party think there are two ways of solving the imbalance. One way is to revisit the 1977 negotiations that took place between the federal government and the provinces in which a tax point deal was made. We think this is an obvious thing that has to be done. The second way is to renegotiate ad hoc all of the programs.

•(1315)

Quite frankly, as an Ontarian, as somebody who lives in a have province, someone from a province with an industrial base with a lot of people, you should not—and I would suggest we cannot—see Ontario the same way you would see New Brunswick, Nova Scotia, Newfoundland, Manitoba, or Saskatchewan. We are a have province, and Ontario ought not to benefit any more than any of the other provinces, and doing an ad hoc deal would simply allow for that.

We think that because the federal government has, for a number of years, consistently been able to run a large budget surplus, and the provinces have consistently, with the exception of Alberta, been in deficit situations for a number of years, it is quite clear that what happened in 1977 needs to happen again.

In terms of the existing transfers, I would tell you that we do not believe the money being transferred to the provinces is being spent for the purposes the federal government has set out.

I can give you examples. The first one is the housing accord of 2001. The federal government offered Ontario \$244 million for cost-shared housing. To this date, I do not believe any housing of any significance has been built in Ontario. Four years have come and gone. We are into our second different government. First it was the Conservatives, now it is the Liberals. Nothing has happened.

All that is happening today, we understand, is that both the federal government and the province are working on a revamped formula.

Then there is the national child benefit. The federal government recognizes that many children in this country and in this province live in poverty. You give \$122 per month per child to end that poverty, and in Ontario and seven other provinces, the province takes the money, claws it back, and uses it for other purposes. This is not helping those poor children who are unfortunate enough, unlucky enough, to be born into families who, often through no fault of their own, are receiving disability or welfare payments from the province.

This money is clawed back. In Ontario, the province takes the \$225 million that is supposed to eradicate child poverty and they use it for other purposes. They use it for a whole broad range of purposes that are not related to child poverty.

I do have to be fair. In the last budget they allowed the poor people to keep \$7.42 out of the \$122 per month, 3%, but that is totally not right.

In terms of child care, a multilateral agreement was signed between the federal government and the provinces, and it has taken some two years for the money to start flowing into Ontario. It was supposed to create 4,000 child care spaces. None has been created. Instead, all that has happened is that it is maintaining the existing spaces because the provincial government is not spending any money. They are just simply taking your money and letting it flow it down, and no new spaces have been created.

They are not using the \$187 million you gave them for the early childhood initiative. Not one cent has been spent on that. I don't know what has happened to the money, but certainly none has been spent in Ontario, and the government in Ontario is not spending any of the \$300 million they announced in the last election to create additional child care spaces.

On health—and this is the worst one—in the 2004-05 budget, there was \$726 million given by the federal government for health care transfers to the Province of Ontario. The province saw fit in its wisdom to institute an Ontario health tax, which, last year or in this fiscal year, will bring in \$1.635 billion, for a total increase, supposedly, in health care expenditures of \$2.36 billion overall. When you look at how much money is being spent, \$2.16 billion of additional spending is taking place in the health field.

We wondered in our party where the other \$200 million went, and we asked many questions. We found out that much of it was being diverted to infrastructure, and in fact the majority of the \$200 million went in to lay sewer pipe. When we asked that question in the House, it was, first of all, denied and later it was admitted to. The premier stood up and bold-faced said that the building of sewers will make sure people don't get sick, and didn't we think that was a good use of health dollars?

Quite frankly, we need to build the sewers, but I am not sure the federal money, the \$726 million, ought to be used that way. It was collected for the purposes of health and it should be spent on health.

But worse is yet to come.

• (1320)

The 2005-06 budget anticipates a \$600 million increase to health expenditures. However, the health tax itself will bring in an additional \$800 million. There will be an additional \$800 million of transfers from the federal government, which leaves \$1 billion. We don't know where it's going to go; it's certainly not earmarked for health. We think it will go to some other government priority.

How did the governments get themselves there? I think the governments got themselves there because they foolishly reduced taxes. Mike Harris reduced the taxes and then this government promised not to raise them. You will remember Mr. McGuinty, on the front pages of the papers in Ontario during the last election, signing the pledge with the Canadian Taxpayers Federation that he would not raise taxes during the first four years of his term of office. If he wants to know why Ontario has a fiscal imbalance and why the books can't balance, quite frankly, it's because of the reluctance to raise taxes. Even the levels of five years ago would bring in some \$3 billion to \$4 billion extra. Just to go back and take away the corporate taxes that had been given and to reinstitute the surtaxes of those above \$100,000 would raise those kinds of funds. The government is singularly unable to do so and wants the federal government, in our opinion, to back them up.

To conclude, Mr. Chair, I want to go back to what can be done or what should be done. We believe we have to go back to looking at tax points. Are the provinces required to carry out additional functions that require money, and is the money from the federal government being wisely spent?

We think if the provinces are given the money and are allowed to do with the money as they wish, rather than taking the money from programs and spending it in other areas.... And I have shown you how this is done in health, in housing, in child care, in child poverty; it is all being taken for one purpose and being spent in another way.

We think a tax point arrangement similar to 1977 should be undertaken and more money should flow to the provinces. They would then set their own priorities and make their own decisions on how those moneys are spent. We think the provincial governments are mature enough—and we know the electorate is mature enough—to know when the politicians say they are going to do certain things with tax moneys, they should be expected to do them.

As the situation is now, it's not clear at all. The province gets the money from the federal government; the federal government makes big announcements of helping poor children—end of poverty—and you spend it somewhere else.

It is just simply not fair. No one can determine who is at fault—I'm not sure anyone's at fault—but we need to get to a tax point program so that the federal surplus is not \$11 billion, or whatever it's going to be this year, and the provinces are not in deficit. We need to make sure the same process is revisited in terms of our municipalities, our universities, and our hospitals. Those are provincial responsibilities.

You will know the bigger cities in Ontario—particularly Toronto, Ottawa, and Hamilton—are asking for a new deal. We believe a new deal is the appropriate way. We welcome the federal government giving a gas tax.... It's fine that the Liberal government in Ontario has offered a portion of the gas tax, but the reality is the cities are now responsible for many things they were not responsible for earlier, just as the provinces are, and just as the federal government correspondingly is responsible for less expenditure in some areas. We think balance has to be done and that a new deal is necessary.

Last but not least, I do not believe negotiating individual programs is in the best interest of the Government of Canada, nor is it in the best interest of the individual provinces. There will be sniping. People will be asking how Newfoundland could get a deal, how Nova Scotia could get a deal, why we are sending money to this province or that province when our imbalance is too high—you know, everything that's taking place.

We think if the tax point issue is looked at, the provinces—the individual provinces, the parties in power—are going to have to justify how they spend the money. The strings attached that have been put there so far simply are not working. We are asking for a better deal for Ontario. We had joined that, but we do not think for a moment the existing system of simply giving Ontario more money is going to do anything other than have the money earmarked in socially progressive ways spent in other ways so they can continue not to raise taxes.

• (1325)

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

Madam Ambrose, for five minutes.

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

Thanks, Mr. Prue, for your presentation.

I just wanted to touch on this tax points issue, because I'm a little confused as to how you see that addressing the fiscal imbalance. You didn't say equalization, but it's sort of what you were talking about.

My concern, which I raised with some of the presenters before you, is that due to the dollar and the large manufacturing industry here in Ontario, and due to the dependency of the Ontario economy on the U.S. economy and the fact that the U.S. economy is having some problems, there's an indication that the Ontario economy is starting to decline. As you and our previous presenters have indicated, Ontario is a contributor to equalization and is an economic engine in this country.

In light of that, I'm trying to figure out how you would propose to deal with this economic decline if you were in government. Premier McGuinty said he wouldn't raise taxes, as you said, but he did raise taxes. I think this is illustrative of the fact that the provinces are having problems with not having the power to actually raise the revenue they need to deliver the services they need to deliver to their public. You said you want to raise taxes, but then at the end you talked about not having to raise taxes. Raising taxes, I would suggest, could hurt Ontario if it's actually moving into a fiscal downturn.

I wonder if you could explain further about this tax points proposal. Are you talking about shifting tax points? You talked about accountability frameworks and that they're not working. Could you please explain how this would fit in with the overall equalization program? I'm just confused as to how this would work.

Mr. Michael Prue: There are many ways that governments raise taxes. In Ontario the health tax is confined to individuals. It's a regressive tax because it taxes people more at the bottom end of the scale. After you earn \$200,000, you don't pay any more. You just pay the \$900 and that's it.

The taxes on corporations have in fact gone down and will continue to go down in order to make sure that corporate Ontario is cost competitive with American counterparts. In the New Democratic Party, of course, we do have some issue with that, but the Government of Ontario feels that is sufficient to ensure the continued viability of the Ontario industrial heartland.

There are other issues that are causing, we think, greater concern in Ontario than taxation. The cost of electricity has gone up substantially in Ontario in the last couple of years. We are seeing the fallout, particularly in northern Ontario, in the mining and forestry sectors as mills are shutting down in pretty record numbers and people across northern Ontario are being thrown into unemployment. We are seeing other cost factors, not necessarily related to taxation, starting to hurt business. Of course, there is the high dollar, which has nothing to do with Ontario. It's a worldwide phenomenon over which the Government of Canada does have some influence. We've just been successful, and the dollar is up there at 83¢ this morning. But that is hurting some of our trade with the United States. So there are a whole bunch of factors.

What can Ontario do? Ontario can try to ensure that its industry stays there. It can try to ensure that the cost of power remains competitive and that we are training people so that in a knowledge-based economy it's going to continue to grow and expand. Also, it can spend some money on infrastructure so that the trucks aren't lined up for four miles at Windsor.

I don't know what else to tell you. It's a very complex thing.

•(1330)

Ms. Rona Ambrose: So you're suggesting raising taxes.

Mr. Michael Prue: No, we think there may be enough taxes already being raised from ordinary people. There's an \$11 billion surplus in one level of government and a \$5 billion deficit in another. We think something can be accommodated there. But if it cannot be accommodated, then I think Ontario has no choice. We can't continue to run a \$5 billion deficit, so we would have to raise taxes.

Ms. Rona Ambrose: But you're against McGuinty's proposal asking for cash transfers.

Mr. Michael Prue: I think it's a no win situation. Quite frankly, you cannot do that in a rich province like Ontario. It's not an equalization. I think Ontario needs to pay its way; Ontario has always paid its way. The \$23 billion is probably the highest level at which we have deviated. I know it's gone from \$2 billion or \$3 billion only 20 years ago up to a difference of \$23 billion today. It probably should not be allowed to expand because there is a limit to what Ontario can pay.

But that being said, we are a have province. I cannot and will not sit here in front of you cap in hand and say give us more money. I'm sorry. I'm a Canadian and I won't do it. I'm proud of this country and everything it does, and we have to treat poorer places in a better way.

The Chair: Thank you very much, Ms. Ambrose.

Mr. Tonks, please.

[Translation]

Mr. Alan Tonks (York South—Weston, Lib.) Thank you, Mr. Chair.

[English]

I would like to refer to my colleague as Michael. He and I had the opportunity to sit on council together for ten years, and we've had a very good collegial relationship. I find it difficult to refer to him as Mr. Prue.

I'd like to, if I may, just follow up a little on my colleague Ms. Ambrose's question. Mr. Sorbara was here, and he made reference to an article by David MacKinnon in the *Star*, pointing out that the percentage of the gross provincial product that goes to equalization is 4.6%. He cross-referenced that to the projected rate of growth in the Ontario economy, which is 3.3%, and he further extrapolated that mathematically it is unquestionable that the competitive nature of the Ontario economy will decrease and that this does not bode well for the capacity of Ontario to reinvest in programs.

My question is pursuant to what Ms. Ambrose asked in terms of looking at the equalization formula and having certain triggers in it that are based on reinvestment in certain programs, because obviously those revenues must increase for us to continue to invest in equalization through the Canadian transfer system. Are you aware of any work in progress on the complexities of the equalization formula in terms of triggers that might make a readjustment? Second, with respect to your point on the tax points, the point has been made that when you look at that total transfer back, you see it does not accommodate quantitatively what those tax points actually mean in terms of Ontario's fiscal capacity.

Those are my two questions: first, in terms of any work going on at the higher level on equalization, that is, the formula and the concepts, and second, with respect to tax points.

•(1335)

Mr. Michael Prue: Well, I have to tell you I think you are blessed in the federal House in that you can find out so much more information than can a member from a third party who only recently got his status back and actually got a budget for a researcher. Certainly, Mr. Sorbara has never seen fit to consult with me or to share with me any of those plans, and I have to say I have no idea whether he's doing anything at all.

In fact, we are often given bills and even things as complex as the budget only as they are being read in the House and not before. The first day I know there is something on this will be the day he stands up to make a statement, so no, I would have no idea.

Mr. Alan Tonks: I'm just going to ask a general question on process, and my colleagues are going to gasp with disdain, I think.

The *Toronto Star* has said, look, this is an extremely complicated area, equalization; the context of the times has to be considered and so on, and they have suggested some sort of neutral mechanism be used, such as a royal commission. I am aware that there are cabinet-to-cabinet meetings, that there's this process of consultations, and that there is also a special provincial panel that is being set up with the federal government. What's your comment in terms of this kind of mechanism being used?

Mr. Michael Prue: I think it is very healthy. I mean, we have to look.... You are talking about something similar to the Sirois commission all those many years ago.

Mr. Alan Tonks: Yes.

Mr. Michael Prue: I think it's a good idea. Maybe I did not argue it successfully enough. A royal commission would work. Some very serious study would work in trying to right the imbalance. I think there is an imbalance, and I don't think any person who has read anything about this will deny that there is an imbalance.

How do we get there? I am just cautioning you. What I am trying to do is caution you against a piecemeal approach where you simply throw money in good conscience to end child poverty and then see it end up somewhere else.

I don't want to see the Province of Ontario or any other province negotiate, quite frankly, on a piecemeal basis, one program after another.

There needs to be a rational discussion about how the overall money is spent, and then let each of the governments spend it in the best way and be responsible for spending it that way.

I mean, you cannot announce all this money for child care and be really keen on giving it, and then have problems using it. People will say then to the Government of Canada, "You did nothing for child care", when that was not your intention. The intention was do something, and yet nothing is being done. So I think the money needs to flow to the province. If the province is short of money, then some money needs to be made available and they need to be responsible, and citizens need to stand up and say, "You have enough money. Why are you spending it on sewers and why are you not spending it on the aged?"—just as an example—and this way you will say, "We gave the money." And one will be left wondering what happened to it.

The Chair: Thank you, Mr. Tonks.

[*Translation*]

Mr. Côté.

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

Mr. Prue, thank you for your presentation.

From what I understand, all parties, in the Legislative Assembly of Ontario, acknowledge that there is indeed a fiscal imbalance. You seem to be rather in favour of transferring tax points or freeing up tax room that Ontario could use to provide services.

You talked a lot about money that was contributed by the federal government which was not used for the purposes it was intended. From a political standpoint, I clearly understand that your party would not agree with the money that was contributed for health care being spent on infrastructure. But regardless of whether this is a good thing or a bad thing, and despite the various political options available, doesn't this, to a certain extent, illustrate that a fiscal imbalance does exist?

The federal government imposes its priorities all across Canada, however the reality is—and I'm not making any political judgment here—, the Ontario government may decide, rightly or wrongly, that at a particular moment the focus should be on sewers. There may very well be problems in other areas, but the sewage problem is judged more important. In such cases, and as a result of the fiscal imbalance, a provincial government ends up having to spend money

on areas for which the money was not intended because of an urgent need in another area.

Is this not yet another example of a fiscal imbalance?

[*English*]

Mr. Michael Prue: I don't believe it is a fiscal imbalance. This is an example of money that people expect or have asked the federal government for, for health. Health is a huge issue in Ontario, as I am sure it is in every other province.

The hospitals seem to be declining. There are waiting lists for some services. The number of nurses and doctors is not keeping up with the population increase, and units like MRI units are not coming on fast enough.

The federal government sat down and, I think quite generously, gave each of the provinces a good deal of money. In Ontario's case it was nearly \$800 million, and people ordinarily would expect that this money would be spent on health.

The Ontario government chose not to spend it on health. They have chosen to spend some of it in another area. What therefore happens is that people in Ontario—and I am sure in the other provinces as well—are angry that the health system seems to be, in spite of all of this massive infusion of money, continuing to be in decline.

Now I am not saying this has nothing really to do with the imbalance.

● (1340)

[*Translation*]

Mr. Guy Côté: Mr. Prue, perhaps I wasn't clear enough. Let's imagine that there was a transfer of tax points and that tax room was vacated. If that had happened, the government would have decided to invest in sewers for example. The government would have been justified in its actions and would have been held to account by voters. Now let's imagine that a particular order of government decides to develop a national plan in an area that does not come under its jurisdiction. The federal government then allocates funds for this particular purpose even though it may not be the priority of the other order of government. If, prior to this, there had been a transfer of tax points, the other order of government would have acted as it intended to, and been accountable to the electorate. Currently, there is a decreasing level of accountability.

So you are saying that sometimes money isn't spent in the area for which it was allocated and that citizens don't always blame the right person for this.

[*English*]

Mr. Michael Prue: It's true. They don't always blame the right person; they don't always blame the wrong person either.

What I'm trying to say is that if the provinces are given additional funds by way of the tax point, if the provinces have sufficient moneys so that they are able to carry out what is normally within their sphere, I am confident they are in a position in most cases to do so.

What is happening now is the money is sent from Ottawa for legitimate purposes, but it ends up not being spent that way, which causes frustration for the ordinary people, for the agencies that are looking for the money. Everyone gets all upset about what the federal government is and is not doing, whereas if it was clear that this was a provincial jurisdiction, as child care is, if it was clear when it's a provincial jurisdiction around health or housing—that the province has that responsibility—we think by letting the provinces have the money in the first place and by allowing them to rationally set out their own programs, people will understand it far better than when side deals are negotiated on a whole bunch of issues and then the money is spent somewhere else. That is the problem.

[Translation]

Mr. Guy Côté: Exactly.

The Chair: Thank you, Mr. Côté.

Ms. Wasylycia-Leis, please.

[English]

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

Thank you, Michael Prue, for being here today. It's useful to hear your presentation following that of the Minister of Finance for the Liberal government here, who I think wanted to have it both ways before this parliamentary committee, on the one hand complaining about the shortfall in funds but on the other hand neither taking responsibility for any of the problems himself nor dealing with some of the roots of the problem, which happened under a federal Liberal government some 10 years ago.

Now, in a way I'm in the same boat as you; I represent the fourth party in a parliament with a Liberal government, and we don't always get access to information, so we'll muddle along here.

But what I found most helpful in your presentation is the way you drew attention to what is a serious problem. How are we going to get anywhere in this country—preserve the equalization concept and deal with some pretty glaring inequities—if in fact a province like Ontario is being so callous about the money it's getting from the federal government as to spend it not according to plan or to conditions set up by the federal government, but according to its own agenda, without accountability?

We all cried bloody murder when we heard about New Brunswick taking health dollars and spending them on lawn mowers. But here you're talking about Ontario, one of the wealthiest and largest provinces in this country, taking the health dollars and putting them towards sewers, while at the same time laying off nurses. It's just mind boggling.

So I guess the first question I have is, how do we actually deal with this from our committee perspective? Should we be focusing on conditionality and a much greater role at the federal level in terms of attaching conditions to any dollars that flow, even if Quebec gets mad at us every time we suggest it, or should we be putting our energies elsewhere? I guess that's really the question.

• (1345)

Mr. Michael Prue: I think you ought not to be putting down the conditions.

The money should quite naturally be flowing more to the provinces if the Constitution is to have merit, if it is to be obeyed, and if these are areas of provincial jurisdiction. It is quite clear to me that areas like education, health, and post-secondary education are going to be the drivers in terms of what is going to cost money in the future. I do not see the same kinds of pressures existing for the federal government. Now, I can't think of any of the areas where you spend money that are going to require the 7% to 10% increases per year for a number of years into the future that those three areas are going to require.

We cannot as a knowledge-based economy be stopping our post-secondary education institutions; we need to be funding them. The drivers around health and drugs are just too strong as the population ages. I'm a boomer too; I am 57 years old, and I will tell you, there is increasing worry. Not by me—I think I'm in pretty good health—but the people around me of my age are starting to use those services a lot more, and there's a whole boomer generation there.

I see kids in school who do not have the same opportunities I had. I grew up in the poorest part of Regent Park, which is right close to here, and they are going to tear it down, the poorest part of Toronto. I see middle-class schools no longer having the opportunities I had in school such as day trips and a book for every kid. You don't see this.

In my view there needs to be a reinvention of where the tax dollars go. If the federal government can run a surplus, not for one year but for about seven or eight, for \$8 billion, \$7 billion, \$6 billion, \$9 billion, and \$11 billion, and the provinces cannot, then we have to seriously look at rebalancing that. That is why I'm talking about tax points.

I don't want to get into the argument of whether Ontario gets enough money for each of its immigrants. I don't want to say whether or not we get as much money for a person who is unemployed. That's really not going to solve Ontario's problem or Canada's problem.

Ms. Judy Wasylycia-Leis: Do you see any difference between what's happening now with federal dollars vis-à-vis Premier McGuinty's response versus federal dollars flowing in the days of Mike Harris and Ernie Eves? We were always reminded by the federal Liberals that in fact Mike Harris and Ernie Eves were taking these dollars and using them for tax breaks as opposed to program funding. Is there any difference?

Mr. Michael Prue: Well, we haven't seen tax cuts from McGuinty except for corporate tax cuts; we haven't seen tax cuts for ordinary people. We've only seen a tax increase around health.

I remember having a discussion one day with Alan—I'm going to call you Alan—about Mr. McGuinty and about whether or not additional money should flow to Ontario. He asked me the question—I don't think it was in this hotel, but it was somewhere in downtown Toronto. I said, quite frankly, if I was a federal Liberal, I wouldn't give money to Mr. Harris because all he would do is grant another tax cut, and he wouldn't do anything with the money other than take it. That's what he did. I don't know if you remember that conversation, but that is what I felt he would do with it.

This government is different in that it will spend the money, but its priorities are not the federal government's priorities. They will take the money and do something else with it.

• (1350)

The Chair: Thank you, Madam Wasylycia-Leis.

Ms. Judy Wasylycia-Leis: Thank you.

The Chair: You have two minutes for concluding remarks.

Mr. Michael Prue: Thank you very much, and thank you again for inviting me. I don't know whether I have clarified this. I just wanted to come as an Ontarian, as a Canadian, to tell you that I believe very strongly in the federal government. I believe there is a role for the federal government to equalize and make better for all Canadians their ways of life.

We have to look out for the have-not provinces. I do not want anything to take away from that. If Ontario is imbalanced and needs additional funds—and the figures tend to indicate that—then I believe all provinces have the same need. They have the same requirements to fulfil, in terms of health, education, post-secondary education, and the like, and all provinces should be treated equally.

We believe the imbalance can be rectified in a very sane and civil way, similar to what was done in 1977. It did not cause the breakdown of the federal government. It did not cause any turmoil. In fact, it was just a rational flow of money from one area to another on a couple of tax points. It seemed to resolve the difficulty for 20 years, and we think it can do the same thing again.

If the federal government has some high priority that they want to spend the \$11 billion on—and I have seen some in the budget, including spending money on our armed forces—then the position should be made clear. But in the end, people are looking for service in a couple of very key areas. They are provincial responsibilities, and the province needs to have the money. I am reluctant to increase corporate taxes. I am reluctant to increase individual taxes. All that will do is continue the surplus in Ottawa.

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

[Translation]

Thank you very much for that terrific presentation. See you next time.

Mr. Michael Prue: Thank you, see you next time.

The Chair: Thanks ever so much.

Have Mr. Poschmann and Mr. Boadway arrived yet?

The Clerk of the Subcommittee (Mr. Richard Dupuis): Mr. Boadway isn't coming.

The Chair: Fine.

• (1353)

_____ (Pause) _____

• (1400)

[English]

The Chair: Good afternoon, Mr. Poschmann. Welcome to the Subcommittee on Fiscal Imbalance. You will have 12 minutes to explain your point of view. After that, we will have a round of questions from the members of Parliament.

[Translation]

Thank you very much for being here. The floor is yours.

[English]

Mr. Finn Poschmann (As an individual): Thank you, Mr. Chairman.

It's delightful for me to have the opportunity to talk to you. Thank you very much to the committee for visiting my neighbourhood.

I should say at the outset that the C.D. Howe Institute, for whom I work, does not take institutional positions, so I'm speaking as an individual rather than as the institution.

There are a lot of ways we could go at this, but I did prepare some notes, so I will run through those, if I may.

The rhetorical heat surrounding recent changes in federal-provincial fiscal arrangements has been very intense. The rhetorical heat is welcome if it brings some light with it and the light shines a path to coherent and sustainable federal fiscal relations.

Coherence and sustainability are threatened when provinces commit themselves to delivering services for which they don't collect the required funding and the federal government collects money to provide services it is not responsible for delivering and for which it can't ensure delivery. However, coherence and sustainability are likely outcomes when provinces assume responsibility for raising tax revenues that roughly match their spending commitments and when the federal government adopts the more limited role of filling in the gaps in provinces' abilities to finance the services they are responsible for. Here, I think you'll find me very much in agreement with many of Mr. Prue's comments earlier this afternoon.

Fiscal imbalance, if it means anything, is what happens when one government collects tax revenue to finance spending by another or when the provinces deliver services without being politically accountable for financing them. Canada, in that sense, has always been in a state of fiscal imbalance. The federal government has made payments to lower levels of government ever since Confederation.

The recent history, particularly the history of the 1990s, has been the federal government's new path toward balanced budgets, which it accomplished in significant part by spending cuts and by a few years of substantial transfer cuts to the provinces in the mid-1990s.

This obviously strained provincial finances, and that strain has since been worsened by demographic pressure on education and health spending. These, of course, are two huge components of provincial outlays. My colleague Bill Robson has written the bible on the demographic pressure on spending in Canada, and he answers the question, will the boomers bust the health budget? Demographic pressure is already lightening on the education side as the bubble moves through. But as populations age, and in provinces where the elderly are particularly large shares of the population, as we're finding in Newfoundland and P.E.I., for example, the stress from health spending is going to get much, much worse in the coming decades.

Meanwhile, there has been reasonably steady economic growth at the national level, and federal revenue has marched pretty steadily upwards. In fact, revenue has grown faster than spending requirements in areas that are indeed federal responsibility.

For all these reasons, the current happiness among the provinces is easy enough to understand. What's harder to grasp is the federal response, which is loads of cash. The result is weak accountability and looming incoherence in the federal-provincial transfer system, as well as collateral damage to fiscal policy in general.

Let's take health care, for example. We have a few tractor loads of federal dollars for health, followed by more equalization funding. These are damaging to provincial and federal spending management and to tax policy. The first reason is that more transfers for health don't buy reform. Money delays change. Federal money puts off the inevitable day when provinces must confront their priorities and allocate scarce resources among facilities, staff wages, diagnostics, and therapies according to the regional needs and a willingness to fund their priorities. The ad hoc dollops of cash instead fuel delay.

At the same time, provinces have to be accountable for their choices, and they have to be able to justify those choices to their taxpayers. Voters understand perfectly well that governments don't always make wise choices in managing money, and they deserve to see how their tax dollars match up with the uses for which they understood the taxes were levied in the first place.

● (1405)

Generally speaking, the dollops of federal cash that accompanied the Summer 2004 health accord are disturbing, because in the recent past and for the near future, a better alternative than lumps of cash has been and is being squeezed out. As long as Ottawa keeps transfers high and offers us the prospect of more transfers in future, there is little room for lower federal taxes, less room for higher provincial taxes, and no incentive for provinces to push for change.

Further, the recent changes to equalization push us toward yet more incoherence in the system. The new annual escalator in the floor provisions disconnect the program from its constitutional mission of facilitating reasonably comparable social program delivery at reasonably comparable tax rates. The changes, the floor in particular, hobble the program's ability to equalize provincial fiscal capacity, in part because the floor prevents entitlements from declining as they should when a province rises towards the average provincial level.

So for now the equalization program can't do the job it should when federally vacated tax room is taken up to differing degrees by the provinces. These hasty changes will slow down needed shifts in the tax shares taken up by Ottawa and the provinces and make it financially and politically harder for provinces to adopt needed reforms in health care financing and delivery.

It seems clear that we are headed towards messy incoherence in the transfer system, but we're not lost. The main thing, the first thing, is that we know what the problem is, which is that Ottawa collects far more tax revenue than it knows what to do with. If instead provinces were responsible for raising more of the money needed to address their responsibilities, spending management and accountability would be better served.

There are other reasons for optimism. For one thing, we've been here before. We've had formal federal-provincial agreements transferring tax points. For another, it doesn't have to be a formal agreement at all. Ottawa could simply lower taxes, and provinces that saw fit to do so could step in to take some, all, or more than all of the vacated room as their voters saw fit. If Ottawa lowered taxes, which would be a politically attractive move in itself, the potential federal surplus would shrink and the federal government would be less inclined to fling cash about willy-nilly.

There's more. The changes are possible; they are happening, and there are two recent examples, admittedly flawed. The first and more deeply flawed case is federal gas tax funding for regional infrastructure. The idea is right. The implementation, with Ottawa simply collecting money and mailing cheques to lower-level governments, has almost all the flaws of the prior system. It would be simple enough in administrative terms and political terms for the federal government to simply reduce the fuel excise tax and for the provinces to allow municipalities to choose the rate they would assess to charge their own residents. Accountability for taxing and spending would be restored; remember, this is regional infrastructure we're looking at. Better yet, there wouldn't be any fighting within provinces over which city or region was owed how much of the tax revenue.

There is a much better example in last week's Canada-Quebec agreement on the Quebec parental insurance plan. The background here is that Ottawa collects far more money than needed to run the employment insurance program as an insurance program and uses the surplus EI premium revenue to finance federal expeditions into areas of provincial jurisdiction. Now, this is dubiously legal, and we are awaiting the Supreme Court's word on whether it is legal or it isn't.

What the federal and Quebec governments have achieved in the new parental EI program or parental maternal and adoption program partly sidesteps the legal issue, but what we have there is the outline of a solution, a partial solution to the fiscal imbalance. Ottawa will continue to collect EI premiums in the amount required to run the core insurance program. Quebec will collect the share required to run the parental leave program, which will be administered by the province, and it will be as generous as the province's voters want it to be, as long as they don't push for a plan less expansive than the federal parental leave program.

•(1410)

This agreement has more constraint than it needs to have, but it offers a sharp improvement in program design. The improvement arises because Quebec's workers will see, on their pay stubs and on their T4s, the premiums collected to run Ottawa's insurance program and the taxes collected to run Quebec's parental leave program. Without this accountability feature, the agreement would have been as limp as the program for sharing the gas tax.

I should point out too that a series of publications from Bill Robson and from me have discussed options for EI program financing that are an awful lot like this in structure, where the core funding for an employment insurance program is levied directly as insurance premiums, but the social program aspects are split away and financed by general revenues. In fact, the insurance related to core job loss could be funded entirely by employer contributions. In practice, the employee contribution to EI could go to zero, and parental and maternal and other social benefits would be funded by a separate payroll tax by the provinces.

Clearly we need a new direction in fiscal arrangements, away from incoherence. The good news is that the direction is in sight. The heat from the flames or the inflammatory rhetoric currently surrounding equalization and interprovincial money flows will have served a useful purpose if it redirects Ottawa and the provinces toward a smarter division of tax collection, or one that better matches their division of responsibilities. More tax revenue would flow to provincial governments in support of provincial priorities and less would end up in Ottawa to be recycled into the confusing and conflict-generating web of federal-provincial taxing and spending agreements.

So the approach would reduce tension between the provinces and Ottawa, and among the provinces themselves, over who funds and who provides the programs that Canadians vote and pay for.

That's where I'll stop. Thank you.

[*Translation*]

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

Ms. Ambrose, you have five minutes.

[*English*]

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

Thank you, Mr. Poschmann, for your presentation. I think my colleagues on the finance committee are going to get sick of hearing me ask, over and over, the same question about the floor that was agreed to in the October meeting on equalization. I ask it because it's something I'm very concerned about. I think it's potentially harmful for Ontario but also potentially harmful for the equalization program in the long term.

You mentioned in your presentation here that the recent changes to equalization, particularly the frozen floor, disconnect the program from its constitutional mission. You also said that the changes "hobble the program's ability to equalize provincial fiscal capacity, in part because the floor prevents entitlements from declining". And in terms of how it affects provinces in particular, it makes it "financially and politically harder for provinces to adopt the needed reforms in health care financing and delivery".

I raised this issue with Minister Sorbara when he was here this morning, and I have raised it in the House throughout the debate on equalization, that this fixed floor, particularly because it's very generous, is particularly harmful to Ontario. If the Ontario economy starts to decline, the Ontario government would be paying more than it should into the equalization program and not have the opportunity, as you suggest, to be able to focus on other reforms and program delivery or on taxation issues that they might like to. Subsequently, this would affect the equalization program in general but also affect the rest of the country economically.

Being that an expert panel has been struck between the provinces and the federal government to look at these issues, I wondered if you could maybe talk a little bit about specific suggestions you might have on how reforms to the equalization program could avoid this.

•(1415)

Mr. Finn Poschmann: I'm glad to hear that there has been a focus on that question. Frankly, if you think that equalization is an important program, and that its job is to equalize fiscal capacities among provinces so as to properly support provincial spending in social program areas, then you would have to be amazed—stunned—by the design of the new growth formula. As far as I can tell, it quite simply turns off the link between provincial disparities or provincial abilities to raise finances and equalization entitlements.

I could concoct a pretty good rationale for a program that looked like that. In other words, I could make a case for per capita financing of some reasonably generous amount that was paid by Ottawa to the provinces in order to overcome certain disparities in financing ability, but I wouldn't call it equalization any more, and I wouldn't pretend it was.

So yes, if we're going to continue to have an equalization program, it can't possibly look like it does now. The review panel, chaired by the very capable person of Al O'Brien, is going to have to come up with some alternatives. Now, I don't know what those alternatives will be. I have some views on them. I've published recently, with Jack Mintz, one recommendation that provincial cashflow should enter the equalization formula. That would obviate the problems that are associated with, or that people believe are associated with, resource revenue, because under a cashflow approach you would include the impact of resources as a source of fiscal capacity, if indeed they do generate fiscal capacity. If a province simply converts assets under the ground into, say, debt reduction or retiring of outside provincial securities, then the revenues are not a source of fiscal capacity and would not then be equalized.

So there is a model, and I think it's an interesting addition to the program.

The Chair: Thank you, Madam Ambrose.

Monsieur Szabo, s'il vous plaît.

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

Thank you, Finn, for your presentation. I'll throw out three so-called questions, I guess. You might want to pick and choose among them, or you could answer them all.

One issue that came up this morning was that the question really isn't whether a fiscal balance exists. The real question, or the important question, is this: what is the nature of our federation and what direction are we going in?

Mr. Finn Poschmann: It sounds like Richard Bird talking.

Mr. Paul Szabo: Thank you.

The second issue has to do with accountability. Yesterday at the government operations committee we talked about the Auditor General's office, about the linkages and the need for accountability. I think this morning it was mentioned that if there's no accountability, it's easier to be irresponsible with the money. What level of accountability are we prepared to give up by relying on transfers, where one jurisdiction collects the money but another jurisdiction is responsible for the spending?

My third question has to do with the Ontario situation, since we're here dealing with Ontario, and the finance minister has presented the government's position about the \$23 billion gap. We know that tax points are more valuable to the have provinces than to the have-not provinces. As well, on the spending side, the probability of their putting a high demand on things like EI and even health, because health is linked to wealth as well, is less. So there likely is a rationalization of why one dollar paid out by the provincial government to the federal government does not necessarily have to come back.

Those are the three issues, if you want to comment on them.

• (1420)

Mr. Finn Poschmann: Thank you. Those are indeed important issues to the system, and for Ontario.

I don't think I have very much to say about the nature of the federation. It is a little bit worrisome that Ontarians in particular don't seem to draw a clear distinction between the provincial and federal governments and are often quite unaware of who is responsible for what. It would be better for political decision-making to be confident that voters were expressing their choices with a knowledge that included who was responsible for what, and to whom they're paying taxes in support of what activities. But I don't know that there is anything cosmically wrong with this generation. Elders have been complaining about the inabilities of younger generations for millennia now; they never make kids like they used to. I'm not that pessimistic.

On accountability, absolutely, that's central to my conversation about the problem with transfers. Let's say I'm ill and I need a soft-tissue MRI, as the best course for diagnostics, but I'm told the waiting list is many weeks long. Is it because the hospital has not properly chosen between staffing or diagnostic equipment and supplying emergency care service or critical care beds? Is it because the province hasn't made enough funds available to the health system writ large? Or is it because Ottawa has failed to make big enough cash transfers to the provinces for whatever reason?

As a taxpayer, as a voter, and as someone who would very much like to have access to the health care system, I don't know who to blame any more when we have this conflicting web of payments. I would like to know who I should go talk to in order to get it fixed,

because it's not going to get fixed if everyone can just point fingers in another direction.

About Ontario, to go back to the point on the economy—this feeds into the tax points and equalization question—yes, Ontario's economy is under tremendous pressure. We've seen it recently in bankruptcy rates, for instance. This is a problem for continued financing of equalization with the floor. That's going to hurt.

Now, switching to the tax points question, the tax point transfer depends on a functioning equalization system to underpin it, or so the logic goes if you sincerely follow the intent of section 36.2 of the Constitution, if I remember right. So yes, if the equalization system isn't equalizing, then tax point transfers don't work very well, and P. E.I., for example, ends up being up the creek.

Finally, the \$23 billion gap is the total federal revenue in Ontario less the total federal expenditure in Ontario—all in, not just transfers, so purchases, goods, services, staff salaries, and lots of other stuff. I don't think it says anything about the fiscal imbalance, or whether there is or isn't one. It reflects, on the one hand, the state of Ontario's economy—in other words, how much revenue it's throwing off—and on the other, federal choices about where to spend money on all of its various programs, including operational spending.

• (1425)

It is too big a number to say something specific about transfers and about the fiscal imbalance, so just in case this question came up, I did provide, in my appendix table 1, a more sensible number. I took the major cash transfers and net against them the federal revenue paid by residents of each province required to support those transfers.

So the tables are zero across the provinces for each year. What you have there is a net number, Ontario's receipt of health and social transfers less the cost to Ontario of financing Ontario residents' shares of transfer spending.

[Translation]

The Chair: Thank you, Mr. Szabo.

Mr. Côté, please.

Mr. Guy Côté: Thank you very much.

Thank you for your presentation, Mr. Poschmann. I must admit that it was almost poetry to my ears. Your presentation reflects to a large extent what I think about the fiscal imbalance. You explained the nature of the problem very well.

You briefly alluded to the fact that there isn't one single solution and that solutions will need to be regionally based. The transfer of tax points may be a solution to the fiscal imbalance in Quebec but this alone may not solve Prince Edward Island's problem, for example.

I don't know what you think about that matter. The fiscal imbalance affects every province in a different way, so solutions need to be tailored to fit each province and Quebec.

[English]

Mr. Finn Poschmann: I'm not sure you need to have a different model solution for different provinces. It would make sense to me, though, to have a range of choices available to you as you look across arrangements between Ottawa and the various provinces.

For example, Quebec has made different choices over the years, many very intelligent choices, adopting responsibility for spending in program areas within its constitutional realm of responsibility that other provinces didn't take on. The result is that Quebeckers pay less tax to Ottawa than they would otherwise. There is a Quebec abatement, for example.

Those choices have always been available, either in practice, through explicit offers on the part of federal government, or in principle. In other words, if other provinces sought to reach agreements like Quebec's with the federal government, those in general would be available. The current new Quebec parental program is exactly like that; the deal Quebec made is open to any province.

Now, it wouldn't make sense for P.E.I. to adopt such a program. It would be too expensive for them to administer just in terms of clerical staff, oversight, program management. P.E.I. is smaller than a lot of little towns in Ontario, and I wouldn't want them to take on their own maternity, parental, and adoption programs.

So in that sense, the federal system is actually working pretty well in that these options are available to you and to provinces that seek to pursue them.

• (1430)

[Translation]

Mr. Guy Côté: In your presentation, you have raised a number of examples that give us some hope in terms of correcting the problem. Currently, was is the biggest roadblock to fixing this problem?

[English]

Mr. Finn Poschmann: I think the leading roadblock is that provinces haven't thought through their options as well as they should. They haven't put the effort into developing coherent alternatives. Why should they? As things stand, the federal government stands happy to collect much more tax revenue than it needs and to mail to provincial governments cheques with Canada flag logos in the corner.

As long as the federal government is willing to do that, the provinces look at it and say, look, there is free money; we don't have to take the political heat for levying those taxes, and yet we get cash for delivering the services that our voters tell us they want.

Now, this is problematic for a number of reasons, most of which have to do with accountability more than fiscal implausibility or durability, at least for the recent past.

[Translation]

Mr. Guy Côté: Thank you.

The Chair: Thank you.

Mr. Poschmann, I have a short question to ask you before handing the floor over to Mr. McKay.

In table 1 and 2, you provide figures on the net benefit of federal government cash transfer payments and on the net benefit of equalization. Could you explain, in both cases, how you have gone about these calculations? This is the first time that I have come across this sort of calculation and I have no prior recollection of the figures you are tabling.

[English]

Mr. Finn Poschmann: Excellent. It's very simple. Take the example at the bottom part of the table, which is equalization entitlements—the net benefit they're from. That is, take the actual cash entitlement to the provinces, sum it up across the provinces, and \$10.9 billion is both the revenue to the provinces and the cost to the provinces, roughly, of delivering that program. Take the cost and allocate it across provinces according to provincial contributions to federal revenue. I have actually used a 20-year average for those shares to make the numbers a little more stable over time. It's a very simple methodology.

Ontario contributes about 40% of federal revenue, so Ontario's cost of the equalization program is about 40% of the total cost. So if you simply subtract the cost against the revenue that Ontario receives, you get the net flow. In the case of equalization, Ontario receives zero. So Ontario's cost of the program is 42% or 43% of the total cost of the program. You just run through that exercise for major cash transfers taken together, which include the Canada social transfer, the health transfer—CHST before that, established programs financing, and the Canada assistance program in prior years.

[Translation]

The Chair: So you have carried after some sort of averaging process which factors in each province's contribution to the federal coffers and what the provinces receive in terms of transfer payments and equalization. In other words, you have calculated the net earnings based on the weighting of each province's contribution to federal revenues.

• (1435)

[English]

Mr. Finn Poschmann: That's exactly right. The idea here is to have a clearer picture of the actual amount that's transferred by the program from one province to another. What happens, of course, is the outflow is collected from provincial residents and businesses. The inflow is a cheque that's mailed to the provincial government. So we have to keep in mind that there are different people on the two sides of the transaction.

This doesn't mean, for example, that if there were no equalization program Ontario would be \$5 billion off, because presumably the federal government would deliver financial support in some other way, or make other choices for allocation of that money beyond equalization.

[Translation]

The Chair: One final question, Mr. Poschmann. Do the figures on Quebec include the federal tax rebate or not?

[English]

Mr. Finn Poschmann: Yes, it does.

[Translation]

The Chair: They include the tax rebate?

Mr. Finn Poschmann: Yes.

The Chair: Mr. McKay, please.

[English]

Hon. John McKay (Scarborough—Guildwood, Lib.): I also want to ask you about these tables. What's interesting is not only the amount, but the patterns. As you know, we had Minister Sorbara here a couple of hours ago. The thrust of his argument was that Ontario was being increasingly shortchanged, if you will, and he cited this \$23 billion figure.

If I look at the top table there, to use colloquial language, and start in 1989, Ontario is contributing \$7.24 billion more than it's getting back in cash transfers. Is that a proper interpretation?

Mr. Finn Poschmann: That's right, but keep in mind that they're adjusted for inflation.

Hon. John McKay: Well, presumably with inflation... Oh, these are constant dollars then.

Mr. Finn Poschmann: That's right.

Hon. John McKay: So adjusted for dollars, Ontario was in fact contributing more in 1989 than it is in 2005-06. Is that a fair statement?

Mr. Finn Poschmann: It is within rounding error, so I wouldn't like to say whether—

Hon. John McKay: Your average number is \$6.9 billion.

Mr. Finn Poschmann: In constant dollars, the dollar outflow has been pretty steady.

Hon. John McKay: It is quite interesting because it goes down, then it goes up, then it goes down again, and then it is creeping up somewhat, but it's still certainly well below peak, which seems to me to militate against the argument of the Minister of Finance, doesn't it, or the treasurer at least?

Mr. Finn Poschmann: Looking forward on social transfers, health transfers, and equalization, things do look worse for Ontario because the amounts are going up and because Ontario still contributes and will continue to contribute disproportionately a share of income that is larger than its population share of the Canadian economy.

The additional dollars that are coming in future years, even though they're distributed across provinces, are going to cost Ontario more than a dollar each. In other words, think about the lump of health and social transfers that's dropped across all provinces or shared across all provinces. Each dollar that Ontario receives is underpinned by about \$1.20 of tax revenue within the province. Getting more of that doesn't make you better off.

Hon. John McKay: The first point, though, would be that over the next ten years, which is the term of the health care...it is on a per capita basis.

We have talked about tax points and cash. Your table relates only to cash; it doesn't relate to tax points. Presumably on tax points Ontario leaps ahead a bit and on cash it falls back a bit, but the net should be pretty well a wash, should it not?

• (1440)

Mr. Finn Poschmann: I tend to ignore the tax points from decades back. The reason—

Hon. John McKay: We've noticed that. We're happy to take them back and see where they count.

Mr. Finn Poschmann: The reason, of course, is that even if you thought it was something you could talk about in a sensible way now, which I'm not sure it is, Ottawa has raised taxes since then. What happens to the transfer if you turn around and take those tax points back?

Hon. John McKay: The second point has to do with your argument that if the federal government does in fact transfer money, presumably for health care—and the previous witness wondered whether it is in fact going to go to health care, which was an interesting point, although we'll take everybody at good faith here—we would in effect postpone the problem instead of dealing with the problem. We can no longer say to the doctors and nurses, who are the biggest consumers of health care dollars, that we don't have any money any more. There's nothing to drive either doctors' salaries in a more rational way or nurses' salaries in a more rational way, to put it in a crude sort of way.

Mr. Finn Poschmann: Well, put yourself in provincial cabinet shoes, if you would. The fact of the matter is, health ministers across the country have been sitting down at the cabinet table and eating everybody else's lunch.

Nonetheless, how provinces spend money on hospitals or doctors, diagnostics versus salaries, and every other decision reflects their choices about priorities. No matter what the overall state of fiscal balance, a doctor or a nurse could always say, "Well, you could spend less on X, Y, and Z, and trips to Florida, and more on my salary. How about that?" They could always say that, whatever the fiscal position is. So we need, I think, the full framework for making choices.

The other thing is to remember that dollars don't come with labels on them. Money is fungible. And I've run into the struggle...

I don't know the French word for "fungible". I don't think anyone does.

Hon. John McKay: It means we can't track it.

Mr. Finn Poschmann: That's right. You know, all the coin, all the dollars get put into a wallet and they get pulled out. And it doesn't make any difference that you labelled some of them health dollars, some of them tractor dollars, and some of them lawn mower dollars. They're going to come out, and they're going to be spent according to provincial priorities. That's how the system works.

So to take a previous witness's comments as an example, his beef is with the provincial government; it's not with Ottawa. And from a federal member's point of view, I'd be offended that I'm being asked to ask to account for a hospital's choice on lawn mowing services versus window washing services. I mean, they have to make those choices, and how the heck is someone sitting in an office in Ottawa supposed to figure those out for him?

The Chair: Madam Ambrose, for two minutes.

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

Back to equalization, I just wanted to ask you a specific question in regard to the recent changes that deal with rates with Newfoundland and Nova Scotia, the Atlantic accord, and the ongoing debate about the treatment of non-renewable resource revenues within the framework of equalization.

Do you see the opportunity...or can you just comment on that same deal, or the treatment of non-renewable resource revenue, being offered to all provinces?

Mr. Finn Poschmann: Are you speaking specifically of the Nova Scotia and Newfoundland deals?

I'm sorry, I just missed your...

• (1445)

Ms. Rona Ambrose: Yes.

Mr. Finn Poschmann: Well, let's see, when people ask me if the two premiers were going to get the deal they sought, I said, "Well, of course not. Don't be ridiculous." They're asking for a huge stream of money, virtually forever, notwithstanding that their fiscal capacity has soared compared to where it was. There have been accommodations in the past, and there will be again, accommodations such as the 70% formula or the transitory deal with Alberta some 40 years ago. Those are temporary things, and the numbers are relatively small compared to the new agreement.

So if these new agreements were the model for future agreements with other provinces, the federal budget would be in a lot of trouble, as it may come to be anyway, eventually, but not for now. And for that reason I can say that's not a very sensible route—one, because of the cost, and two, because you've sailed away from whatever you thought the equalization program was supposed to accomplish. So that's an unappetizing route.

The difficulty, though, is that we're now in a strange position where the federal government doesn't have a really good answer for why they should say no to any other provinces given the generosity of the deals to Nova Scotia and Newfoundland.

Ms. Rona Ambrose: Thank you.

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

You have two minutes to conclude.

Mr. Finn Poschmann: Thank you.

I'll just say it's been a pleasure to have this conversation. At my institute we've written many papers on related issues over the course of the past decades. I should confess that in my remarks today, the last paragraph was lifted more or less verbatim from something I wrote with Bill Robson about six years ago.

I mention that because these problems are eternal. It's in the nature of the federation that when you have transfers, large transfers, there's going to be some squabbling over them. I think what would make sense to do from a policy point of view is to keep your eye on the ball. What is it you are trying to accomplish? What are the costs and benefits of taking one route as opposed to another? And further, to the extent that we have new knowledge about the nature of intergovernmental finance, pay a lot of attention to the role of accountability. If you look at the literature on fiscal federalism going back decades, you'll see there isn't quite the focus on accountability that maybe there ought to have been. There is more talk of economic efficiency, immigration, and things like that, and not enough about the importance of holding local governments accountable for their policy choices. I think this points out a direction that we should be taking as a federation, and could if we wanted to.

Thank you.

The Chair: Thank you very much, Mr. Poschmann, for your contribution—and thanks also to Mr. Robson for his contribution. I have known him for the last ten years, and his contribution is always appreciated.

Thank you very much.

[*Translation*]

Thank you so much for your participation in today's meeting.

Thank you to the members of the committee.

This meeting is adjourned.

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

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

**Also available on the Parliamentary Internet Parlementaire at the following address:
Aussi disponible sur le réseau électronique « Parliamentary Internet Parlementaire » à l'adresse suivante :
<http://www.parl.gc.ca>**

The Speaker of the House hereby grants permission to reproduce this document, in whole or in part, for use in schools and for other purposes such as private study, research, criticism, review or newspaper summary. Any commercial or other use or reproduction of this publication requires the express prior written authorization of the Speaker of the House of Commons.

Le Président de la Chambre des communes accorde, par la présente, l'autorisation de reproduire la totalité ou une partie de ce document à des fins éducatives et à des fins d'étude privée, de recherche, de critique, de compte rendu ou en vue d'en préparer un résumé de journal. Toute reproduction de ce document à des fins commerciales ou autres nécessite l'obtention au préalable d'une autorisation écrite du Président.