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Chair

Mr. Yvan Loubier

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● (1315)

[*English*]

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

Welcome, Mr. Peach, to the Subcommittee on Fiscal Imbalance. You will have 15 minutes to make an opening statement. After that, we will have two rounds of questions for the members of Parliament.

Mr. Ian Peach (Director, Saskatchewan Institute of Public Policy): Thank you, and I would like to thank the subcommittee for inviting me to come to speak this afternoon on the topic of fiscal imbalance.

I understand you went over the question of horizontal fiscal imbalance fairly thoroughly this morning. I was intending to focus instead on vertical fiscal imbalance, so hopefully this will be complementary.

First, I suppose I should start by touching on my background—or possibly declaring my biases, as the case may be.

While I am currently director of the Saskatchewan Institute of Public Policy, I came to the institute from nearly ten years in the Government of Saskatchewan, in Executive Council and prior to that in Intergovernmental and Aboriginal Affairs. Other than eight months in private practice of law in Toronto, my career has been in the public service since I finished law school in 1989. This in fact included a couple of stints as staff to two parliamentary committees and as a negotiator for the Government of the Yukon in the period leading up to the Charlottetown accord referendum.

Thus I come at the question of vertical fiscal imbalance with extensive experience in intergovernmental relations, but also with the perspective of someone who has experienced the frustrations that federal policy-making has sometimes caused provinces.

I want to speak not about what the fiscal imbalance is or whether there is one or not, because frankly that can rapidly devolve into a numbers game that avoids critical questions about fiscal federalism and intergovernmental relations. What I would like to ask you to consider in my presentation is the question why Canadians should care about the fiscal imbalance anyway. To give you the punch line before the setup, so to speak, the answer is because it has resulted in poor policy design that is unresponsive to the variety of citizens' interests and as a consequence serves to foster regional alienation from the government in Ottawa.

If the two orders of government were equally effective at policy-making and equally efficient at implementation, it might not matter to Canadians which order of government undertook a particular task. Either way, the end result would be a program or initiative of equal quality for equal cost to the taxpayer. The problem is that the two orders of government are not equally effective at making policies in all fields for as diverse a political community as the Canadian federation, nor should rational citizens expect them to be. This is why we have a federal structure, after all, which assigns different responsibilities to different levels of government. The essential purpose of a division of powers is to allow different orders of government to respond to the different balance of interests citizens may have on an issue between commonality and distinctiveness.

Intergovernmental friction arises when governments fail to take proper account of these competing interests. Sometimes this means the provinces forget the interests their residents may have in mobility that comparable standards will facilitate, although I recognize different citizens in different provinces have different levels of concern about interprovincial mobility. More often, it means that the federal government forgets that the diversity of the country makes centralized policy-making unresponsive to the citizens and thus inappropriate.

Naturally, federal politicians seek to be relevant to the lives of the citizens who are their voters and to secure the consent of those voters to allow them to remain their representatives. This is natural. One sure way to do this is to respond to citizens' real, obvious, concrete needs for things, whether they be for quality health care or quality roads. Unfortunately for federal politicians, most of the real, obvious, and concrete needs of citizens exist constitutionally within provincial jurisdiction. Enter the useful tool, admittedly, of the federal spending power.

In seeking to provide their political masters with what they need to prove their continuing relevance to the lives of citizens, the bureaucracy in Ottawa produces policy ideas that are designed to respond to problems, but problems as they are understood in the bureaucratic and advocacy communities within Ottawa—sometimes elsewhere in central Canada—and which are implemented through conditional and often cost-shared federal funding with provinces and sometimes municipalities. This leaves the provinces and those municipalities scrambling to meet federal conditions, rather than seeking to respond intelligently to the needs and demands of their residents.

Another problem has also proliferated in recent years. Over and over again, provinces and citizens see the federal government announcing programs or pilot projects that seek to respond to today's news rather than to the long-term core needs, and programs that have a lifespan of three or possibly five years, which is too short to have any effect on the difficult issues that continue to plague our society.

This is done, as one sincere, professional, and, I have no doubt, well-meaning federal bureaucrat once described it to me, to avoid program dependency. What this actually does, though, is one of two things. The federal program just comes to an end after a period of time. It creates expectations among citizens that they will receive a service even if that service isn't necessarily a high priority for the population as a whole, and when the federal government exits, the provincial and municipal governments are left behind in the position of responding to the artificially created, but now very real, expectations.

Alternatively, if the federal government creates a new program similar to the program that has come to an end, but different enough to constitute a new announceable in the political universe, it leaves provinces, municipalities, and service delivery agents scrambling to adapt their service—often just after they have made it work under the terms of the last federal program—to meet the new federal rules so they can continue to capture the federal money that makes it possible for them to continue to do good work in communities in need. Both of these problems distort the policy-making process and serve to reduce the quality of policy outcome.

There are solutions to these problems, but the solutions require governments to be committed to greater involvement of other governments and citizens in policy-making; to creating programs that are more responsive to particular communities' issues and ideas; to minimizing program design conditions and easing procedural accountability, in exchange for accountability against a clearly stated set of outcomes that articulate the purpose of having the program; and to providing stable, predictable, long-term support for programs that seek to solve long-term issues. Ideally, support for a program would only be removed if the program either proved ineffective in achieving its outcomes, or was so successful the problem it was meant to solve disappeared.

If the federal government had proven itself, over history, to be genuinely committed to this kind of cooperative planning and program delivery, and didn't intervene in citizens' lives—particularly in areas of provincial jurisdiction—in a unilateral, poorly planned and unresponsive way, provinces and citizens might not be particularly concerned about whether the federal government retains the tax room it currently occupies—which is the source of the fiscal imbalance—and uses transfers to correct that fiscal imbalance, or whether the federal government removes the fiscal imbalance by retreating from some of the tax room it currently occupies and allowing the provinces to occupy it instead.

The fiscal imbalance debate has developed a currency in recent years, though, because governments have already tried to constrain unilateral federal use of its spending power, without reducing the federal government's tax capacity. In fact, this strategy has been tried more times than I really care to count. We have repeatedly tried to constrain the federal spending power through constitutional amendment. We have always failed.

If you look at the legal text of the Charlottetown accord—the last time we did this, and the attempt with which I am most familiar—you will see section after section of legal language that tried to preserve the legitimate utility of the federal spending power, while constraining its unfettered capacity to be used unilaterally and inappropriately and, as a consequence, generate bad policy and fractious intergovernmental relations. We failed, as I suspect you all remember.

So having failed in this last attempt to legally constrain the federal spending power, provincial and territorial officials tried to find a way to constrain the federal spending power through simple intergovernmental agreement.

● (1320)

Now, it's significant to me that the Government of Quebec chose for a period of time to be part of the provincial and territorial governments' efforts in this case. The outcome, however, of those intergovernmental negotiations was the social union framework agreement. Not only did the text of this agreement represent an inadequate commitment by the federal government to restrain itself in the use of its spending power—that's what caused Quebec to decide not to sign the agreement—but now, in my experience, the federal government also effectively ignores the existence of the agreement, or at least seeks merely to meet the letter of the agreement in the most minimal way possible. The agreement certainly does not play a robust role, as far as I've ever been able to determine, in policy development and policy debate within the federal bureaucracy. Thus we are here discussing fiscal imbalance.

If constraining the federal government's use of the tax room it occupies, for the sake of improving levels of intergovernmental cooperation and more accurately reflecting our division of powers in government spending as well as in law, has not worked, and quite possibly cannot work, then the logical plan B is to reduce the government's tax room, and reduce it to a level at which both orders of government have an appropriate fiscal capacity to effectively undertake their constitutional responsibilities—once the equalization program equalizes interprovincial disparities—and no more. Of course, it would also improve intergovernmental relations if the federal government acted on the constitutional responsibility it has been assigned but continues to deny, that of the provision of services to all aboriginal people, whether they live on or off reserve. But that's a separate issue.

If the federal government lacked the tax capacity to intervene in areas of provincial jurisdiction, then the existence of the federal spending power, which has been the major federal-provincial battlefield for decades, would cease to matter. Over time, it would become like the constitutional powers of reservation and disallowance—unused and, by convention at least, unusable. The problem, however, is how to start the federal government down that road when there's no obvious reason for it to be any more interested in limiting its fiscal capacity than it has been in limiting its spending power.

To my mind, the first step is for the new Council of the Federation to begin to demonstrate that provinces and territories acting collectively can make national policy that is more responsive to citizens' needs, and therefore more effective, than can the federal government. I've written elsewhere about how the Council of the Federation will need to change to accomplish this task. For now, I will only reiterate the importance of the council seeking to change Canadians' views about federal and provincial governments by demonstrating to Canadians that provinces and territories can be more effective vehicles for making national policy than can be the federal government.

The council will also need allies within the federal system, allies who will seek to force change on the executive branch of the federal government from within the vehicles of federal government. That, I believe, is your task, in part anyway, and it's the reason why this subcommittee represents an important vehicle for democratic debate at the federal level.

I wish you the best of luck in your deliberations. Again, thank you for inviting me to present my views to you.

● (1325)

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

Mr. Fitzpatrick, please, for five minutes.

Mr. Brian Fitzpatrick (Prince Albert): Thank you.

I guess I should explain my bias. I'm from the school that generally believes that the level of government that is closest to the constituent is the kind of government I'm generally most comfortable with.

I look at the federal government and its track record in so many areas where it does have jurisdiction—aboriginal affairs, for example. I look at what the Auditor General has to say about education performance; it's dismal. They've had 125-plus years to get this thing sorted out, and sometimes you think they're going backwards. I look at the non-insured drug program; again, it's a dismal, sad story.

In my view, the federal government has helped create a high-dependency situation among our first nations people, and they've had a dismal record of trying to break that cycle and have aboriginal people become part of mainstream society and so on. Even with something as simple as quality drinking water, I've heard people from the federal government say we should take over that area because we'll ensure people have quality drinking water. I think reports have been done on first nations reserves across Canada on drinking water that, again, show that the situation is dismal.

I have difficulty with the federal government when they're not doing their job in their legitimate areas, whether it's the military or the fisheries or fiscal management of our national affairs, even the criminal justice system. There are a lot of areas that raise more questions about their competency to manage things from the centre. But the problem I have is they seem to be preoccupied with the areas of delivery that provinces have—health, education, social services, municipal affairs and so on—and it seems to me the federal government feels they're in a better position to deliver those services, to manage them or dictate how they are done, and they're using the federal spending power to do so.

I really don't know where they get off thinking that they're the watchdog for these services here. I think if provincial governments do a lousy job in these areas, there is a solution: people will vote them out of power. It's an accountability mechanism that's built into our system. I really don't know why we need big brother in Ottawa somehow using the federal spending power to bully provinces into running programs according to the way Ottawa wants them run rather than the way the people in those provinces want them run.

Do you have any thoughts in that area?

● (1330)

Mr. Ian Peach: Well, my initial reaction is that I'm with you.

That said, I think there are legitimate concerns about inter-provincial mobility, at least in English Canada. I was born in Nova Scotia, grew up mostly in Ontario, and was called to the bar in Ontario. Because I'm a policy person and didn't come here to be a lawyer, it didn't worry me; but there would have been rules and procedures to get called to the bar in this province had I come out here to be a lawyer.

There are legitimate concerns about interprovincial mobility.

Mr. Brian Fitzpatrick: I'm a lawyer as well, and it seems to me this is a role the federal government has vacated. There are powers in the Constitution under which I think the federal government quite legitimately—on interprovincial commerce and professional groups and so on—could challenge some of this stuff and have a more mobile society, but they have refused to do it, for whatever reason.

I just want to make one comment about your presentation that I think is right on. My riding is Prince Albert, and in that riding the federal government has announced some initiatives for homeless shelters in the city of Prince Albert and elsewhere in my riding. They announce things and put some seed money into getting these things up and running. But a real concern I have as a member of Parliament in that area is exactly your point, that the federal government will vacate the area once they have invaded it—and this is a social service area, as far as I am concerned, not a federal area. They will vacate this area, and then the municipal government and the provincial government are going to be saddled with the problem of how to finance the homeless initiatives in which the federal government has intervened. To me this is just an example of the kinds of things you were talking about.

I've seen it in other non-profit-sector areas too. I've had folks come to see me who were concerned about funding for help to people with disabilities and so on, and then the federal government withdraws or says, well, our five-year program is over and you didn't submit a new proposal, or something like that, and then the funding is cut off, and they're left high and dry. This is a concern I have. They move into provincial areas of jurisdiction and then they withdraw after sticking their nose in it.

Mr. Ian Peach: Indeed.

Where there are mobility concerns, provinces and territories should be and at times have been quite capable of dealing with them. The fact of the matter is that I'm with you. When it comes particularly to delivering services on the ground, by real people, for real people, the jurisdictions closer to the real people in need are better at it.

The federal government is very good at running a tax system that is fair to Canadians and doing tax transfers. One of our successes in this country in the last decade has been the national child benefit, for which the federal government established a tax-driven system as a base and in which provinces have been investing in complementary services to families in poverty and reinvesting the savings that the federal increase through the tax system had given them in other complementary services. So the federal government is running a tax system that is fair to Canadians, and provinces are running the services on the ground that work for their residents.

● (1335)

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

Mr. Bell, for five minutes please.

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

Welcome. I come from a background in municipal government. I spent thirty years there, including fourteen of those as mayor, and I've been involved with FCM.

In your material, on about page 4, you're talking about the pilot project aspect of where the federal government announces programs and then funds them initially but doesn't follow through. My experience has been exactly the same with provinces. In the relationship with municipal government, which is the closest to the people, provinces either start programs or don't assist municipalities in doing what the municipalities have to do. Since you got into what is sort of a policy issue, I'd like to know your thoughts about the need for municipal government to be recognized in the Constitution as a fourth level of government—or third level of government, depending on how you count aboriginal self-government.

A second question would be whether you believe we are in fact moving toward a system ultimately of city-states rather than provinces, as seems to be the case to some degree in Europe, where they're recognized by the larger cities in their areas. How does the federal relationship with the provinces differ from the provincial relationship with municipal government? It's the same kind of problem that you're talking about. Where the federal government doesn't provide the flexibility for provincial governments, my experience has been that provincial governments don't allow the flexibility for municipal governments and their policies.

One of the issues that I've seen, in dealing through FCM and now as a federal member of Parliament, is that of in fact providing money directly to the municipalities so that the provinces can't muck things up. I come from that perspective. I've seen too often that if there is a program, then by at least applying some criteria—municipal green funds would be one good example—that don't allow for provincial priorities, it allows for municipal priorities where they can meet the criteria of a federal program to proceed.

And the other issue that you can throw in there is this. My understanding is that where there have been federal programs, you end up with provincial clawbacks. Money ends up going to a program that's targeted to what municipalities need, but the clawbacks by the provinces take away any real benefits.

Mr. Ian Peach: I'll certainly not be one to suggest provinces are squeaky clean in their transfers either. It all speaks to the importance, as a principle of policy-making, of long-term joint planning. If the transfer system does change so that there are direct federal transfers to municipalities, as long as the federal and municipal governments work together to build strategic plans to identify the outcomes they're shooting for and to make a long-term commitment to the necessary funding to achieve those outcomes, it doesn't disturb me any to see the federal government transferring directly to municipalities.

I'm not convinced that constitutionalizing municipalities as an order of government will change the dynamic. Having constitutionally entrenched provinces has done nothing to change the warping of local priorities that the federal spending power causes, so I'm not sure that will change the system. But your fundamental point is sound. Transfers that are designed not cooperatively but are designed unilaterally for purposes that may not be priorities for the receiving community serve merely to warp the policy-making process, not to improve it.

Mr. Don Bell: To some degree it's something like the parent offering a child some money if they want to go to school, but not to go into the holiday. Let's say they are in grade 12, and your son or daughter comes to you and says, “If you give me the money, I could go to Europe and travel for a year, and that would be my education”, and you say, “No, I'll fund you if you want to go to university or college, but I'm not going to fund you on a year's junket to find yourself.”

It's that issue of priorities. I know the federal government has concerns about national policies, whether concerning childcare or other standards. The provincial government takes the bigger picture over municipalities; then we have a provincial perspective so that we don't have competing interests being destructive to each other.

I don't know the difference between the two, and that's why I asked you that question. I mean I do, but I see a lot of similarities; let's put it that way.

● (1340)

Mr. Ian Peach: Certainly, as do I.

To run your analogy with the parent and child further, if the kid coming out of grade 12 were to say to the parent, “ No, but there is real value in going to Europe, and I intend to give it some educational value by doing X, Y, or Z”, I think it might not be unreasonable for the parent to say “In those circumstances it fits my fundamental work ethic of making sure you become a smarter, better-rounded citizen, so I'm willing to put a little water in my wine, to back off from my insistence on formal education, if you are prepared to commit to creating some educational value out of your trip to Europe and not just having fun.”

That, in some loosely analogous way, is how I see an iterative planning process working, and in my experience in provincial government how it has worked on occasion—not often enough. That's the ideal that I think we ought to be sharing.

[*Translation*]

The Chair: Thank you, Mr. Bell.

Before we continue, I would like to make a comment, myself. We must be careful when we compare the federal government to the mother or father of a family and the provinces to children, because in the Constitution, the provinces have very clear and very serious responsibilities. In the beginning, Confederation was a union of autonomous states. If Confederation has transformed itself into a federation, that is for other reasons.

What we can fault the federal government for in the last 30, 40, or 50 years, is a kind of paternalism toward the provinces. Perhaps you remember the show called *Father Knows Best*. We must be careful because the provinces do not see themselves in a childlike role. They have serious responsibilities. front-line responsibilities to provide services to the people. I am not sure if others agree with me, but the important thing is a relationship with the federal government that is a relationship between equals.

Mr. Côté.

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

Thank you, Mr. Peach, for your presentation which has left me nearly speechless. It is always interesting to see this division by the federal government which does not respect the jurisdictions of the various provinces and which operates nearly all the time with quasi-unilateral decisions and temporary solutions that mean that the provinces are then forced to manage decisions they did not make. That is not only the Quebec perception, it is also seen by other thinkers and policy makers throughout Canada.

I am among those who have always thought that if the federal government were to give more respect to each level's jurisdictions, it would naturally lead to better management of the federal state. If it were to concentrate on managing the armed forces, international trade and the aboriginal peoples, rather than education, health and child care, I think that things would work much better.

Aside from that, I have few comments on your document, because it is very clear. Apart from the parent-child analogy, I tend to agree with you. Tell me if I am mistaken, but I believe you said that in the end, there are two things to remember in terms of solutions. First, it is a political process wherein, in the end—and I do not yet know exactly how—the provinces must be able to provide a counterweight to the enormous power the federal government has for spending in their fields of jurisdiction; you gave the example of the fiscal transfer to the family.

Do you see the federal government more as a trustee of taxes—unless there is a better term—which in practice, limits itself, up to a point, to redistributing money by setting very general objectives, so that the provinces would have sufficient funds to manage the programs that best meet the needs of their citizens—this will please Mr. Bell—so that they can better cooperate with the municipalities?

● (1345)

[*English*]

Mr. Ian Peach: I guess I should start by trying to get back my reputation as a federalist.

I'm not sure what Mr. Bell was thinking, but I must admit that what I was thinking of with the parent and child analogy was the question of direct federal transfers to municipalities, not to the provinces. I would never use a parent-child analogy in speaking of federal and provincial orders of government.

That said, and I think this leads to my answer to your question, both the federal and provincial orders of government are a trust and hold public funds in trust for the citizenry. The Fathers of Confederation made a calculation in 1867—and I would suggest a smart calculation, one that has proven to be smart in spite of federal intrusion—to assign different parts of that trust to different orders of government on the basis of a calculation of which order would be best placed to exercise that trust effectively for the citizenry on different matters.

So I don't see the federal government as some kind of trustee for the provinces, nor vice versa. I see each order of government in its own areas of jurisdiction functioning as a trust for the citizenry.

[*Translation*]

The Chair: Mr. Côté.

Mr. Guy Côté: I will be very brief. You talked a lot about the impact of various temporary programs. I am thinking of the federal government's funding withdrawal and in particular, the cuts made in the health and education fields in the mid-1990s. At that time, the provinces had to manage a very difficult budgetary situation. We will not draw the complete analogy with health and the increase in needs.

While the federal government, through such gestures, was improving its public finances and thus its image in the eyes of the people, the provincial and Quebec governments had to pay the political price for these cuts. That raises the question of accountability and the question of credibility of the various levels of government.

In your opinion, how can this credibility be restored? The fiscal imbalance has more impact than on taxation policies alone. Often, it affects the way policies are applied in general. Do you see a way out, to restore the credibility of the various levels of government?

● (1350)

[*English*]

Mr. Ian Peach: There may be several things. One of the reasons, in some ways, that the situation in the mid-nineties arose was because of a loose usage of terms. We refer to the “national debt” when in fact we mean the federal government's debt. We would have a different understanding of our national debt, and possibly a different policy dynamic, if we reported national debt as the combined debt or deficit of the federal and provincial governments —which is truly national—so that one doesn't rob Peter to pay Paul, in that sense.

To re-establish credibility for the Constitution, basically—because that is really what we are talking about the credibility of here, at this stage of the game—I think it's critical that the Council of the Federation succeed, to demonstrate that citizens don't have to look to a big brother in Ottawa to protect their national interests against provinces and territories, but that in fact provinces and territories are quite capable, thank you all the same, of understanding the national interests of their residents and cooperating as mature, responsible equals in the federation to achieve good national policy.

If they wish to do so with the federal government, more power to them, but provincial and territorial governments should be driving the national agenda in areas of provincial and territorial jurisdiction.

[*Translation*]

The Chair: Thank you, Mr. Côté.

Before giving the floor to Ms. Wasylycia-Leis, I would like to say something to Mr. Peach. You were speaking again of the parent-child relationship between the federal government and the municipalities. In this case, it is not the biological father, since municipalities are the creature of the provinces. So you see that making such analogies leads us out onto the slippery slope.

[*English*]

Mr. Ian Peach: I'm never going to resurrect my reputation.

Ms. Judy Wasylycia-Leis (Winnipeg North, NDP): Thank you, Mr. Peach, for a very interesting presentation today. You have presented a very controversial proposal, and I think it's made us all think very carefully about what we're up to.

I don't disagree with your analysis, in many ways, of a relationship that has soured over the last number of years, where the federal government has made decisions that have been not always responsive to the provinces' needs, has not always been cooperative and collaborative, and in fact has provided often a set of band-aid, pilot-project-type, and boutique-program solutions that are not conducive to building this country. But I don't know if I agree with your solution, and I'm still trying to figure it out.

At one point you said you were trying to restore your federalist slant, or your response in terms of the father-child relationship was about trying to reassert your feelings about federalism. But I see your paper largely as one that is decentralist. I am wondering whether I'm reading the wrong thing in your paper, or what your real solution is. I'm looking at page eight, where you say that perhaps we have to look at the logical plan as plan B, “to reduce the federal government's tax room to a level at which both orders of governments have an appropriate fiscal capacity”, etc; in other words, that we should have the federal government move out of the role of providing national programs and then ensuring an appropriate level of transfer funds for each province.

I guess I see the problems you are enunciating, but I'm not sure I agree with the solution, and I need you to help me, to explain exactly what your solution is and then how you would—if it is as I think—build any sense of a national identity in a country based on moving towards a model that is focused totally on provincial needs and on providing a counter to the federal government.

● (1355)

Mr. Ian Peach: I guess in response I would say what I am is a frustrated federalist. I've actually believed in the idea of legitimating the federal spending power, but simultaneously constraining it for the purposes of promoting national cooperation. I personally worked pretty hard on that in 1991 and 1992 and I believed in what we tried to do then. I also believed in the social union framework agreement and in the Saskatoon consensus that was arrived at in the late nineties—in 1999, I guess—if not in the final agreement. It's the failure of our national politics to get a handle on the problems as well as the possibilities of the federal spending power that leaves me throwing up my hands saying it's time to change tax capacity, because nothing else seems to work.

My solution would be “let's try it again” on the spending power, but I recognize that's idealistic—romanticized, possibly—and not a practical response after all the tries that have failed. In the absence of that, I'm left putting my faith in the Council of the Federation to demonstrate that indeed national politics is still possible, but that it happens, where it is appropriately situated, in vehicles of inter-provincial or provincial-territorial cooperation, and that our national identity has plenty of relevance to people. It would have plenty if the Council of the Federation works as it is intended; it has plenty through a charter of rights; it has plenty through a tax system.

As I said, the federal government runs in a way that is fair to Canadians and will run efficiently, so I'm not overly concerned about our national identity disappearing. I will be disappointed if the Council of the Federation doesn't work as it's intended. Then I will be left with a real conundrum.

[*Translation*]

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

Before we more on to the second round of three minutes, I would like to ask Mr. Peach a question.

Just now you mentioned the issue of the debt. The federal government tells us it is a good thing that there are surpluses in Ottawa, since they will be used to pay down the federal debt.

I would like to hear your opinion on the following idea. Do you not believe there is only one taxpayer? There is a federal debt but there are also provincial debts. Except for Alberta, these provincial debts are not being repaid at an appropriate pace, considering the inadequate financial means of the provincial governments.

Is it logical, for example, to pay back a lower-cost debt more quickly—the federal government's debt is costing us much less to manage because the federal credit rating is better—and let the provincial debts mount up, when they have much less advantageous credit ratings? I would like to hear what you have to say on this. The clerk has pointed out to me that we really have not talked about the debt this morning. I think you are the person who could talk to us about it.

[*English*]

Mr. Ian Peach: Well, certainly I prefer to pay down the Visa before my mortgage. Paying down the more expensive debt before the cheaper one makes perfect sense to me as long as one does enough to ensure that the cheaper debt remains cheaper in a financial market that judges governments' overall performance. But the fundamental point is that we misconstrue our national debt when we refer to the national debt as the federal debt as opposed to the national.

I think we would have a far more realistic fiscal policy environment if we stopped using the word "national" when we really mean "federal" and started talking about our total national debt and net deficit and how whatever governments' surplus can best be used to address national issues.

● (1400)

[*Translation*]

The Chair: Thank you, Mr. Peach.

Mr. Fitzpatrick, you have three minutes.

[*English*]

Mr. Brian Fitzpatrick: I want to thank you for bringing that distinction between federal and national debt. I never really thought of it that way before, but there was always something wrong with the way these things were being communicated. This puts it in perspective, so I'll have to get my language changed on this matter.

I agree with your points that there have to be legitimate areas for the federal government on spending, but there have to be mechanisms to legitimately constrain the federal government too. I often thought the federal government is a good concept—it's like a fire. If the fire is in the fireplace and it's heating your home, it's a good thing, but if the fire gets out of the fireplace and gets on your rug and on your drapes and so on, then you have problems. So I would like to see us respect sections 91 and 92 of the Constitution; that's what was intended. I think the federal government has tried ingenious ways to invade legitimate provincial areas of jurisdiction and I'd like to have some way to constrain it.

I agree too that provinces want to advance legitimate national interests. I think that's silly for the federal government to say that the provinces aren't concerned about legitimate national interests. You mentioned Charlottetown, going back to those days. I thought maybe a solution to some of these problems would be an elected Senate, a powerful Senate, and a Senate that could legitimately represent the legitimate regions of the country. We haven't been able to achieve that. And in some ways I look to the Council of the Federation as maybe an indirect way to accomplish something that I think should have been accomplished in a federal system through a bicameral legislature. But it doesn't look like it's in the cards to do it constitutionally. So I support the venture by the provinces to do it through the Council of the Federation.

Is that your view of what's going on with the Council of the Federation too, or is it analogous to a Senate, a real Senate, I mean, in a bicameral sense?

Mr. Ian Peach: In functional ways it would be analogous, in terms of creating a competing centre of power to the federal executive. It's anyone's guess what a triple-E Senate would have done to federal decision-making, but certainly my hope is that the council as it matures will become a competing centre of authority over national policy, along with the federal government.

[*Translation*]

The Chair: Thank you, Mr. Fitzpatrick.

Mr. Bell, for three minutes, please.

● (1405)

[*English*]

Mr. Don Bell: How would you see plan B, as you describe it, coming about?

Mr. Ian Peach: The problem I have is that it's very much in the realm of practical politics. I don't know that we have legal recourse to force it. So as I said in my remarks, hopefully the Council of the Federation and this subcommittee will begin to change the dynamics of our political discourse. If this is about winning the hearts and minds of the public on the question of who should be doing what in the federation, I hope you and the Council of the Federation will begin the process of convincing Canadians that indeed there is reason to have faith in the provinces and territories as vehicles of national policy, and create the impetus in the dynamic to change the vertical fiscal imbalance issue.

Mr. Don Bell: I just want to clarify that my reference to the parental role as an analogy wasn't so much about the federal to provincial; it's the provincial to municipal that is an interfering parent. I have found it, as a municipal politician, to be extremely frustrating, and that's why I'm a very strong advocate for a fourth level of government. The FCM has passed resolution after resolution asking for recognition of local government directly, because provincial governments are not in harmony.

Brian, your comment was that the best level of government is the government closest to the people. Guess which level that is. It's municipal government.

I know I'm now a federal representative, so I'm learning the role of the federal government, but with that bias I see clearly the role of the federal government where there are programs with a national interest —and this is where you talk about your council—and a role can be identified for the federal government from a national perspective, ensuring some national standards. Whether it's day care...if federal money will be going into it, there should be the ability to set at least some minimum standards so there is this portability that Canadians can enjoy across Canada, and not suffer either social or economic consequences from moving from one province to another, for example. They should be able to have this equality as they go across Canada. That's the difference in that. I don't hear anything contrary to that, except to maybe my passion for local government.

Mr. Ian Peach: I don't think I would even contradict you on that. On other agendas, I'm a firm believer in aboriginal self-government on the same principle.

Mr. Don Bell: I was the chair of the Lower Mainland Treaty Advisory Committee for a number of years, so I recognize that one of the issues we have to wrestle with too—and you have made reference—is aboriginal self-government and how that's going to fit into the mosaic we have of governments in Canada.

Thank you. You've made a very thought-provoking presentation. It's something I'll take away and give thought to.

Mr. Ian Peach: I'm glad to be of use.

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

Monsieur Côté.

[*Translation*]

Mr. Guy Côté: Thank you, Mr. Chair.

Like me, Mr. Peach, you are learning your role. I hope you will not entirely forget the role you had before and that you will not become too much of a centralist.

We were talking about the appropriate vocabulary for discussing the federal debt, the national debt. We are a long way from changing these terms, since even in the United States they do not talk about the national capital but the federal capital. while here, Canadians are very proud to talk about a national capital of the federation. It is always a bit strange.

As for the Council of the Federation, as you understand, I have some reservations. If the Council can, occasionally, be effective—we had one example of that in the health field when, with a solid common front, we reached an agreement that, while not perfect, of course, is quite all right—in other cases, when opinions are fragmented, it has led to failure.

Perhaps Mr. Bell will not agree with me, but I am thinking of the conference on equalization where, faced with the fragmentation in the Council of the Federation, the federal government was able to impose an accord. Therefore, I have many reservations about the Council of the Federation.

That said, the solution, of course, is political. Nevertheless, would the answer not lie, up to a point, in greater flexibility from the federal government and in more specific agreements with each of the provinces? Could that be part of a short-term solution?

[*English*]

Mr. Ian Peach: Yes, that would be fine. The provinces working together also provide some scope for flexibility. The country is too big, too diverse for one-size-fits-all policy-making. I'm not even going to comment on whether I want this, that, or the other specific policy to be changed, because I want more. I want the way we make policy in the country on issues of national politics to change.

The health accord was good. It created flexibility. It created a level of asymmetry that was responsive to particular jurisdictions' rational requests.

Equalization...maybe, maybe not. I actually think the agreement on equalization wasn't so bad. It kind of turned radically left when we started making side deals outside the forum. But your fundamental point is valid that you can have appropriate national policy that responds to legitimate national interests in things such as interprovincial mobility, without having complete symmetry.

● (1410)

[*Translation*]

The Chair: Thank you, Mr. Côté.

Ms. Wasylycia-Leis.

[*English*]

Ms. Judy Wasylycia-Leis: Thank you.

I share many of your views on this whole issue. Looking back, this past decade in Canadian politics has just been a disaster from the point of view of building a nation. There have been whole series of half-hearted attempts to try to piece together something out of the chaos that's happening as we try to cope with these unresponsive and unilateral decisions by the federal government. But I don't know if the Council of the Federation is going to be the answer.

The council was announced with great fanfare, but there hasn't been much out of it lately. I understand it's bogged down again in terms of trying to find some common purpose and ground. I hope it revitalizes itself, gets back on the national scene, and provides the kind of role you're talking about.

My question to you is that if it's not the answer, and if the answer still is—even if you call it romanticized—a view of the national government playing a major role in terms of national programs that fit with our identity, assuming that's the dream and that's the all-else-being-equal goal, how do we get there? What do we say as a committee coming out of this cross-country set of meetings? What are the conditions that we put on the federal government to try to shape it, reshape it, to have it be what you want it to be, what I want it to be, what Canadians want it to be? How do we make sure we're not left simply at the whim of the federal government handing out money without being subject to the risks of the upturning demands on programs and without being on the front line to take the heat, without being responsible for the changing nature of Canadian society? How do we do that? What do we say?

Mr. Ian Peach: I would begin by accepting that the jury's still out on the Council of the Federation, but I'm a long way from giving up on it. Benoît Pelletier, the Quebec minister responsible for Canadian intergovernmental affairs, was probably the smartest of anyone involved with the Council of the Federation upon its launch. He cautioned us all to give it time; that we cannot change the dynamics of intergovernmental relations and national policy-making in this country overnight; and that we should look at how the council is going to change those dynamics once we're four or five years down the road. But give it some time. I'm prepared to do that, because I think Minister Pelletier was right.

In the absence of a successful Council of the Federation, I'm not sure what to do. If you want my advice on what you as a committee could say about the vertical fiscal imbalance, and if a continuing federal role in national policy-making is important to you, then at a minimum you have to say that national policies have to be national and can only be implemented after substantial federal–provincial–territorial consultation, and that they're only national programs after the agreement of seven provinces representing a minimum of 50% of the population, not a simple majority. In the absence of that, then it is more important that we respect our constitutional division of powers and that we re-balance the fiscal imbalance to ensure that our Constitution continues to be respected.

● (1415)

The Chair: Thank you very much, Judy.

Thank you, Monsieur Peach. You have two minutes to conclude, and I thank you very much for your presentation.

Mr. Ian Peach: Thank you all. I hope I was helpful and a little bit provocative, and that I have given you something to go away with and consider. I certainly have no closing comments, except to again thank you for inviting me to come present before you.

The Chair: Thank you very much, everybody.

We're adjourned.

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