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• (1615)

[English]

The Acting Chair (Ms. Rona Ambrose): We'll get started. I believe Mr. Bell will be here shortly as well.

Welcome to Mr. Mendelson, Mr. Mackenzie, and Mr. Darby. We look forward to your presentations. Each of you has 10 minutes to present.

Mr. Darby.

Mr. Paul Darby (Deputy Chief Economist, Conference Board of Canada): Thank you very much, Madam Chair. I'll be brief.

We at the Conference Board have almost made an industry of fiscal imbalance. We began doing work in the fiscal imbalance area probably four years ago for the province of Quebec and for the provinces taken as a whole. At that time we were tasked with projecting federal and provincial revenues and expenditures for the next 20 years.

We repeated that work two years later for the provinces. We repeated it again for the federal government as recently as last August in the discussions that led up to the most recent health accord.

We have spent an enormous amount of time and money developing tools at the Conference Board in order to estimate at least the quantitative side of the existing fiscal imbalance. Those tools have included very sophisticated and detailed models of health care costs and education, in particular, which are obviously very important expenditure categories at the provincial government level.

Because we need to produce forecasts of the economy on a quarterly basis, which involves tracking very carefully the fiscal situation at the federal and provincial levels, we have closely followed changes in the relationship between the provinces and the federal government, as reflected particularly in the transfer payment schema, as well as the equalization, which is of course part of the transfers.

We have come to the sense that we do indeed have a problem currently in Canada with respect to the mismatch between current fiscal capacity and the constitutional imperative in Canada that faces the provinces to deliver, particularly on health care costs.

We understand rather well the various arguments with respect to the term "fiscal imbalance". We understand that in theory at least, the provinces do have the fiscal tools to redress any imbalance they might be facing. However, in practice there are clearly restraints on the use of those tools. Raising taxes in many instances may place the

provinces in situations that would not be, shall we say, competitive with other jurisdictions, either within Canada or within the United States, which is a pressure.

We have also looked at issues around the extent to which we sense that various provinces have room to move in expenditure restraint. I think at this point we would conclude that for many provinces at least, that is not as interesting an option as it would have been, in the British Columbia case, even as early as three years ago.

We have looked fairly carefully at the various expenditure items line by line for provinces, and frankly, for most provinces, especially speaking now, we don't find a lot of fat. So further room in terms of the provinces' changing their structural fiscal situation in a significant fashion is not easy.

That having been said, I think it's also important to recognize that as we've done this work through time, we have noted that the increases in transfers from the federal government to the provinces that have taken place over the last, say, five-year horizon, in particular the most recent health accord and equalization accord, have made the situation for the provinces as a whole better. So there's no doubt that when we do the work going forward, the analytics suggest that the provincial situation is better now than it was, say, as early as one year ago.

However, what we are also becoming clearly cognizant of is that there are growing disparities between the provinces that equalization is perhaps not even a sufficient tool to deal with.

I think it's important to remember that a \$700-million or \$800-million deficit in the context of Newfoundland is roughly a \$40-billion deficit in the context of Ontario. There are certain jurisdictions that, frankly, are in crisis. I think obviously the federal government to some extent has at least recognized that fact in the most recent ad hoc payment to Newfoundland, and of course, to Nova Scotia as well.

So when we talk about a fiscal imbalance, our sense is that indeed there may still be some issues between the federal government and the provinces, and certainly the provincial situations are not entirely happy, but it's certainly a better situation than it was, say, five years ago. At the same time, there are imbalances that have grown up between the various provincial jurisdictions within the country, and that is also worrisome and troubling.

What we have indicated in general, in various publications that we've produced, is our sense is that we need to establish some clear principles. We need a principles-based approach to redressing fiscal imbalance through transfer payments and equalization. I think many of those principles are already expressed. It's just that we need to be very disciplined in terms of toeing the line or paying attention to these principles.

Some of them, I think, have clearly come up in discussions between the provinces and the federal government and are now in the current processes. At the risk of being redundant, let me just discuss what we see as being the four important principles here.

The first one would be transparency and long-range planning. The transfer system needs to be understandable by the general public and by those who have to work within the context of the transfer system. To some extent, I sense that has happened, but the rules are still complex. However, these rules need to take into account or need to be constructed in the context of a long-term planning situation or scenario. The provinces came to the federal government previously and said, look, how can we plan a health care reform if we only get information in a budget about transfers for health care that go out one year or two years? We know that situation has been redressed in the last two budgets, and we applaud that.

We would suggest, however, that when you do establish those transfers, there needs to be a clear agreement between the federal government and the provinces, for example, on what would be a reasonable health care take under a reasonable health care system, going out 10 years to 20 years—an establishment of the need, and not only even over the five-year horizon, because in fact, hospitals tend to last longer than five years.

So transparency and long-range planning is one principle, and I think we've gone some way in terms of addressing and dealing with that imperative. However, we could go further, I think, especially on the planning context, although work has been done and we've been part of that.

Clearly, a principle that we need to maintain, and we would be the first to admit it, is federal fiscal sustainability. We are not going back to the days of the 1980s and early 1990s where the federal government may have been going broke financing provincial government programs at 50¢ on the dollar. I honestly don't think that's in the cards. Frankly, I don't think it would be a good way to run our transfer system, and it wasn't effective at that time.

Any transfer system that gets put in place has to recognize fiscal restraint. You can't have everything, and there may be some things you just can't afford, at which point a lot of it becomes an issue as well of educating the public as to there only being so many resources to go around. It's always tough, I admit.

● (1620)

Another principle we want to look at that's already enshrined and that we should continue with regard to the equalization is indeed to try to generate comparable provincial fiscal capacity, which is a principle that currently exists in our equalization formulas.

Finally, there is the thorny issue of accountability. I must confess that I don't have a magic bullet on this one. Clearly, Ottawa, to put it simply, has the money and the provinces have a lot of the spending

pressures constitutionally, and we need to come to terms on the whole issue of national standards and performance measures on the distribution of those funds. I think that is one of the thorniest issues now facing fiscal federalism in Canada, but it needs to be resolved. Personally, frankly, I come down on the side that says provinces are constitutionally responsible governing bodies in Canada, and the federal government may have to demonstrate a certain amount of trust here, unless there's clear evidence otherwise.

As an aside, I think that if the Bloc Québécois were here, they'd be happy to hear that.

● (1625)

Ms. Pauline Picard (Drummond, BQ): I'm here.

Mr. Paul Darby: Good. Sorry, Pauline.

It's not clear from our perspective that ad hoc one-time payments contained within an equalization agreement are necessarily the best way to go. Our sense is that there may be other principles outside of the transfer payment scheme, which we may have to begin to address, and some of them may be just relative wealth. If, heaven forbid, Newfoundland were to go bankrupt, as it has once before in its history, I would assume the federal government is on the hook for the debt, to some extent anyway. We may be looking at having to make payments to provinces "in crisis" that are one-time and hopefully not chronic.

But I don't think we should be making those payments in the context of the equalization system. They're outside of it. I think they have to be recognized as crisis alleviation payments, if you like, or however you want to term them. But I think to somehow get into non-renewable resource discussions or to bury them within equalization only opens up a whole Pandora's box, which you're now dealing with with regard to Saskatchewan—and Quebec, I know, thought about it and then thought about it again—taking energy revenues off the table in terms of equalization. You have issues with Ontario. They're beginning to feel hard done by.

So making ad hoc one-time payments that are not in alignment with these principles only, I believe, gets you into trouble. So I think you should be cautious.

With that, I'll close my remarks and welcome any questions.

The Acting Chair (Ms. Rona Ambrose): Thank you very much, Mr. Darby.

Mr. Mendelson, you have 10 minutes.

Mr. Michael Mendelson (Policy analyst, Caledon Institute of Social Policy): Thank you. I'm glad to be here. Thank you for the invitation.

Let me start out by stating some of the core assumptions in my presentation.

The first core assumption is that several of the provinces in Canada need more revenue, namely those provinces that don't have significant resource revenue, particularly revenue from oil.

Ontario is the province I know best, having written a provincial budget for it once many years ago, in 1988, and having followed it quite closely subsequently. I think I can say without any doubt that Ontario has a significant structural deficit that is going to have to be addressed at some point. And as far as I can see, it will only be addressed by more revenue.

I agree with the comments Paul made. There is no magic source of savings that will address the structural deficit in Ontario. It will have to be addressed through revenue sources, which isn't to say that there aren't some efficiencies that can continue to be found, but they will be pale in significance.

Having said that there are some provinces that need more revenue, the entities that really need more revenue—where there's a pressing, dire, urgent need at the present time—are the cities, the major cities. If we want to understand where the real fiscal imbalance is, it is between the cities and the other orders of government.

I have a picture here. I'm sure you can't make it out. I'll just show it to you. I just happen to have the map with me because I'm going to London next week. This is a map of the London tube. If any of you have been there, you know what a great mess of spaghetti it is. Can you imagine what transportation would be like in London if there were two subway lines, one running east-west and one running north-south, instead of this huge spaghetti of subway lines?

Well, there are two subway lines in Toronto. The population of London today is 7.7 million. The population of the Greater Toronto Area in 30 years will be 7.7 million. So we have London, England—a city of the same size—growing in our country. Where will we be in 30 years with respect to that city? Will we have Bangkok, where people sit for four or five hours in their automobiles while they try to go from one place to another? What will that mean for our economic survival as a country? So I think that's where we have a very significant challenge.

I have to go on to say in this forum that I don't think it's a challenge the federal government can respond to. With all due respect to the good intentions that have been stated at the federal level, the municipalities are very much creatures of the provinces. It will have to be the provinces that find the way to provide additional revenue, significant additional revenue, to the major cities. I would go on to say that this is, most of all, the problem in the city that is growing the most rapidly, the Greater Toronto Area.

The problem then revolves back to the provinces. The question then is, given that the provinces do need more revenue, do they need it because there is a fiscal imbalance? Is it fiscal imbalance that is the source of the problem?

Well, there are many types of fiscal imbalance. One type that I think we can all see exists is the horizontal imbalance among the provinces—between, for example, Alberta and the rest of the provinces of Canada. There is definitely a significant fiscal imbalance. Alberta has the lowest taxes and the highest spending per capita. That isn't just because of good management.

So we do have a fiscal imbalance in Canada. It is a fiscal imbalance among provinces. We had a program, equalization, that was meant to ensure, in the words of the Constitution, that “reasonably comparable levels of public services” could be provided “at reasonably comparable levels of taxation”.

We had—I'm speaking in the past tense—a formula-based equalization system. It had some problems with respect to the formula. It was based on a five-province average tax base, but the tax rates that were reflected were ten-province tax rates. That led to distortions. Tax rates essentially were too low, in my view.

• (1630)

There are issues around how you define averages and issues around some tax bases, like local property taxes. There are issues of unpredictability. However, in my view...by the way, I'd have to say that if you want own-source revenue, which is provinces raising their own revenue, it is also unpredictable. I'm not sure that provinces receiving equalization payments as a substitute for own-source revenue have a greater need for certainty than provinces that have to raise their own revenue. There are problems with the growth incentives in the equalization formula, which you've heard a lot about.

In my view, the equalization formula also had many offsetting virtues. It was mainly formula based and it wasn't arbitrary. It clearly reflected a key principle that we will measure the tax a province is capable of collecting, and we will try to develop a formula that will provide each province with at least the average level of revenue capacity, given its economic realities. The formula base for equalization is now under question. It's really no longer operative, at least for Newfoundland and Nova Scotia. As Paul said, it has really opened up a Pandora's box that is now going to have to be dealt with. It will not be easy.

I'm not sure what ad hoc measures will now be developed as the new basis for equalization. But I think that I can observe, without having done a deep analysis myself, that the fiscal imbalance among provinces is probably growing, not decreasing. It has probably been increasing over the last several years, not only with respect to Alberta but with respect to other provinces. It is not getting better. Given that the whole equalization formula has been thrown up into the air, I hope the new process will be resolved in some way that will begin to redress the issue or at least address the issue of fiscal imbalance among the provinces.

Having said that, the question you're really here to talk about is vertical imbalance, the so-called imbalance among the provinces and the federal government. In the classic economic definition, vertical imbalance exists when one order of government has access to revenues that the other does not.

In my view, vertical imbalance is about tax capacity in a classic economic sense. It's not about the extent to which a government decides to use that capacity. You can't look at whether one government has a surplus and another has a deficit and say it's a sign of fiscal imbalance, any more than you could look at me and say you're spending more than you earn, so you're worse off than Hugh here, who's spending less than he earns. That only tells us that you're prolific compared to Hugh; it doesn't tell us that you're richer or poorer.

It's hard for me to see how you can have a classic fiscal imbalance among the orders of government in Canada, among the provincial and federal orders of government in Canada, when they all essentially have an unlimited constitutional capacity to raise own-source revenue. There are some limitations, but they aren't really that pertinent right now, except with respect to resource revenues, which are in favour of the provinces.

I disagree with Paul with respect to competitive constraints. I'm going to come to that in a minute, because I want to raise the issue of the non-economic sense of fiscal imbalance. Is there a fiscal imbalance because the provinces are constrained either politically or in a competitive sense from raising own-source revenue?

• (1635)

I disagree vis-à-vis the issue of a competitive limit. There might be limits, and in fact there are limits, in terms of the own-source revenue that provinces can raise, but we're far from that. In fact, analyses show that our corporate tax levels in Ontario are lower now than those in competing states in the U.S. There are some issues around the marginal effects of corporate tax rates, but these are different from the actual level, which is lower. More than that, we've seen in the last few years that the Canadian dollar has appreciated by some 30%, and we've survived that. There are problems in the manufacturing sector in Ontario and Quebec, and other provinces, but we've survived it. The amount of competitive pressure on a province of raising 1% or 2% of additional GDP is much less than, and in fact infinitesimal compared to the effect of, that appreciation in the Canadian dollar.

So is there a political fiscal imbalance?

I'm aware that I'm a little over my time, but I've almost concluded.

The political fiscal imbalance, it may be argued, is that the federal government has occupied the tax room. It's taken up that room. Realistically, the provinces cannot increase taxes, because there's a political limit to the amount of taxes that can be raised, which has been reached, and the federal government is already there. So the hypothesis is that there's a political fiscal imbalance in that federal taxes have crowded out provincial taxes. They got there first, so to speak.

I'd like to be able to think this is a reality, but it's hard for me to reconcile the crowding out theory with the fact that federal revenues as a percent of GDP are indeed at their lowest level in many decades. Looking at all the provinces, federal revenue has declined from a high of almost 18% of GDP in 1991 and 1992—admittedly a recession period—to a little more than 15% today. So if we accepted the crowding-out hypothesis, we'd expect that the federal tax revenue would in fact have been going up as a percentage of GDP, not down. We would expect it to be taking up room.

That is not what the evidence shows. In fact, the evidence shows that both federal and provincial tax revenue as a total percent of GDP have been declining. So it's hard to reconcile the political crowding-out thesis with the statistical reality that we're confronting.

The conclusion I come to in the order of accountability is that at some point or other the provinces are going to have to accept reality, take the bull by the horns and raise revenues that will be sufficient to fund public services to the extent necessary, and that will put an end

to the structural deficit and the accumulation of an ever-growing debt. In particular—coming back to my first point—that will enable them to address the real pressing, urgent fiscal imbalance with respect to our urban areas. That needs to be addressed and, I would say, needs to be addressed urgently, because this doesn't happen in one or two years. You do not build a transportation system in a large metropolitan area of 7.7 million people in 10 years, or even in 15 years. It needs to be addressed now.

Thank you.

• (1640)

The Acting Chair (Ms. Rona Ambrose): Thank you, Mr. Mendelson.

Mr. Mackenzie.

Mr. Hugh Mackenzie (Research Associate, Canadian Centre for Policy Alternatives): Thank you.

I'm going to pick up on some of the same themes that Michael has just addressed. Let me start by putting some of my cards on the table.

I think it's hard, looking at the numbers and the situation, to conclude that the different fiscal positions of the provinces and the federal government result from a constitutional or structural imbalance. Interestingly enough, 20 years ago these differences were reversed. In the late 1980s, a number of provinces were close to balancing their budgets, and the federal government was running deficits in the neighbourhood of \$25 billion to \$30 billion. Back then, though, you didn't hear people running around talking about fiscal imbalance between the provinces and the federal government.

From a point of view of constitutional authority, the federal government and the provincial governments have access to exactly the same tax bases. At the moment, however, the federal government is under much less fiscal pressure than the provinces. If there is a structural imbalance, it is the imbalance between local governments and the federal government, or local governments and senior governments. It is not an imbalance between the provinces and the federal government.

So if it's not structural, constitutional, or legal, why is it that a number of provinces are coping with deficits that are conceded to be structural, i.e., insoluble on the expenditure side without politically unacceptable consequences? It's hard to avoid the conclusion that these deficits are the net effect of a series of political decisions that, over the last 10 years, have been made at both the provincial and the federal levels. To put it bluntly, provincial governments, from 1995 until today, went way overboard in cutting taxes. They drilled so many holes in their fiscal capacity that they are no longer able to pay for the public services that their citizens need and demand. This is not a constitutional or structural issue; it's a political issue. For this reason, it's very difficult to define the role of the federal government in addressing the problem.

I am going to footnote a couple of concerns that I have about how unaffordable provincial tax cuts have resulted in differences in fiscal positions. My instinct is that once you have reduced taxes it's very difficult, politically, to raise them again. So in effect, the interaction of the tax cuts and current political realities means it's extremely difficult for provinces to dig themselves out of the fiscal hole that has been created partly by the federal government and partly by their own tax cuts.

• (1645)

The second caveat I'd make to that is that when the framers of Canada's Constitution decided who was going to tax what, they weren't thinking about globalized financial markets and the ease with which taxes on income and taxes on capital can be avoided in the spectacularly open economy that we have. So one footnoted concern I would raise is that we may have a structural problem in our revenue-raising system to the extent that provinces find themselves having to rely on corporate income taxation and taxation of income from capital as a way of rebuilding their fiscal capacity.

The reason I say that is that, in my own view, it's extremely difficult for a subnational jurisdiction to tax corporate income effectively. Corporate tax avoidance is so simple, so straightforward at a subnational level that I think there is the potential for real leakage in fiscal capacity as far as provinces are concerned in their revenue potential from capital and from income from capital, because of the ease with which these taxes can be avoided and the power of lowest common denominator competition that can very easily arise between provinces. I flag that as a potential concern.

If I were given the opportunity to do a rewrite of the way tax powers are allocated, I would take the taxation of corporate income away from provinces and trade some federal revenue source that's easier for provinces to defend for that, as a way of addressing that particular issue.

Because I know I have only a couple of minutes left, I want to highlight a couple of clear indicators of the local government imbalance issue that I've raised. Let me just talk about a couple of things.

It has become commonplace in Canada to talk about the crisis we're facing in our ability to sustain and grow our capital stock. I think Michael's pictures of the London Underground system are an example of that.

But I just want to throw a couple of facts on the table that really illustrate for me where the real fiscal imbalance lies. Last fall, I crunched some numbers dealing with the public capital stock in Canada, looking at the period from 1955 to 2003, almost a 50-year period. In 1955, the federal government owned 56%, almost 57%, of the public capital stock in Canada, provincial governments collectively owned just a little less than 30%, and local governments owned 17%. By 2003, the federal share had dropped 29% from 57%. The provincial share was almost flat—in 1955, it was 29.5%; in 2003, it was 28.5%. The municipal share had jumped from 17% to 42%.

If you're looking at infrastructure, what you have is the level of government with the narrowest tax base having the broadest responsibility for funding infrastructure. People wonder why we

have an infrastructure financing problem. I think the answer is there in that structural question.

In a similar set of numbers that look at shares of capital investment, which really gives us a sense of where the responsibility is for dealing with things going forward, you get a similar kind of pattern except that, on the investment side, both the federal government and the provinces have seen their shares drop dramatically, and the municipal share of capital investment by governments, by 2003, was 52%. Again, I keep reminding you that this is the level of government that has the narrowest tax base. It essentially has access to one tax base that does not automatically increase in response to increases in cost.

• (1650)

The final point I want to make comes back to the fiscal pressures and how they get kicked from one level of government to the other. We spend a lot of time talking about transfers between the federal government and provincial governments. I looked at those numbers, but I also looked at the numbers for the transfers from provincial governments to municipalities. And the numbers were really quite striking.

I looked at the period from 1960 to 2000, and what we saw with federal government transfers to the provinces was that from a share of GDP of about 3% in 1960, the share of GDP represented by federal government transfers to provinces increased to the neighbourhood of 4% to 4.5%, and it stayed there pretty consistently from the mid-sixties until the mid-nineties. Then, between 1993 to 1995, it dropped from 4% to 4.5% of GDP down to 3% of GDP. Even the increases that have been brought in recently haven't recaptured that gap. It's interesting that when you look at the province-to-local-government transfers, exactly the same thing happened.

In the late sixties provincial government transfers to local governments were in the range of 2.5% to 3% of GDP. By 1970, through to the early to mid-1990s, that share had jumped to in the range of 3.5% to 4%, with some years getting as high as 4.5%. But guess what happened in the late 1990s when the federal government cut back on its transfers to the provinces? The provinces cut back their transfers to municipalities. So what you had in 1993 was provincial transfers to municipalities hitting a peak of about 4.3%. By 2003 the figure was down below 3%.

This is what happened. In the nineties you saw the federal government export its fiscal problems down to the provinces, and you see that in the percentage of GDP numbers. I remind you again that even with the improvements we're not getting back to the share of GDP that we were at before, but the provinces turned around and whacked the hell out of the municipalities. So you have provincial transfers to municipalities below historical levels by a substantial degree, and those transfers have not improved.

We do have a really significant fiscal imbalance problem, I think, but the fiscal imbalance problem is not a constitutional one, unless you describe provincial responsibility for municipalities as part of the Constitution. In the long term, in an economic future in which the engine of Canada's economy is going to be its large cities, it's a very big problem for us.

Thanks.

• (1655)

The Acting Chair (Ms. Rona Ambrose): Thank you very much for your presentations.

We'll go to questions from the members.

Mr. Bell, you have 10 minutes.

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

I'm sorry, Michael, that I missed your presentation. I'll get the transcript of it.

This is music to my ears. At these committee meetings and on the finance committee, I have been commenting all along. I come from a background of 30 years in local government, most recently as mayor of North Vancouver and as vice-chair of the Greater Vancouver Regional District.

Mr. Mendelson, I heard the tail-end of your presentation, with respect to the cost of transportation systems and infrastructure, whether it be water or sewer. I'm thinking, in the case of Greater Vancouver, of water treatment plants that are necessary to bring them up to scale, and in the case of sewage treatment, of the five sewage treatment plants that are servicing the Greater Vancouver area, with a population of some two million-plus. Only three of them have secondary treatment, so we're, in effect, polluting our waters. And the costs are astronomical.

The problem I have seen is that the local government tax, the property tax, which is the prime source of tax for Canadian municipalities, is not a tax that's an indicator of ability to pay. Many people have either inherited a home or bought a home when they were relatively cheap as a percentage of their total income. Now in British Columbia, for example, the price of housing is astronomical. There are people who are on fixed incomes, retired, living in half-million-dollar homes that they have lived in for 30 years, who don't want to leave their homes—it's where they've raised their children, they have their pets and everything—and yet they are being considered wealthy and they are living maybe on a very meagre income. So when municipal governments raise their taxes, it really hurts.

I have been singing this song for a long time as a municipal politician, formerly, and at the FCM, and arguing, in fact, that local governments should become—and this is also FCM's position—an order of government so that they have access to a broader taxing level.

One of the issues that have come up is that municipalities perhaps should have access to sales tax. I know that former Mayor Murray of Winnipeg, in fact, suggested this a number of times. He and I both attended a conference of U.S. mayors in which we heard from those mayors that, in fact, having access to sales tax for municipalities is not a panacea because it depends on two things. It depends on, first of all, overall economic conditions, which can go like a roller-coaster. And if the economy turns down, the cost of local government doesn't drop, but the revenue sources dry up.

Secondly, in the case of competition between municipalities, in some cases.... British Columbia recently brought in legislation to

allow variable taxation and tax deferral to attract industries. If you do that you get into a race to the bottom. There are U.S. municipalities that told me they'll have a large shopping centre, let's say a Wal-Mart, right on the edge of town that's been producing maybe 50% or 25% or 30% of their tax revenue. And maybe as much as 40% or 60% of their total tax revenues for the city come from sales tax, which is a tremendously high amount, and a third of that, or 40% of that, may come from one or two big developments, which can be lured away with a tax holiday by a neighbouring city. In effect, the shopping centre, the commercial area, will move maybe a thousand yards away from where they were before to a tax holiday, and it devastates the municipality they leave or the city they leave.

So it's interesting. I experienced, in my time in local government, exactly what you are talking about. The clawback or the passing on of the cuts that came from the feds were passed right on down. We saw what used to be called per capita grants, and later were a form of either revenue sharing or funding to the province, eliminated in British Columbia. My municipality lost \$3 million a year in grants. And increasingly the provincial government is walking away from providing services, particularly social-based services, that are now being forced into an area that was never the realm for them. Local government is basically providing sewer, water, and policing. They are into providing all kinds of shelters and day cares and things that were never part of the mandate of local government.

So there is an imbalance. I happen to agree. I think there is a heck of an imbalance, and it's an imbalance between provinces and municipalities. I agree, and so I speak to that.

• (1700)

Having now told you that I found this very interesting, with surveys that have been done in Alberta—and we heard this as a finance committee, but I also heard it as mayor and in local government—when you ask the citizens about tax cuts or avoiding a tax increase, they would rather have a tax increase than a loss of services. That's something else that the surveys we have done have showed fairly regularly.

One of the innovative ways, when you look for alternate ways—and whether you call it 3P, or public-private partnerships.... We had a situation in North Vancouver in which we had a proposal from a company that if we were to put up billboards—and we don't have billboards in North Vancouver—they would in effect pay for a bridge or pay for a recreation centre. When that was made public as a possibility, we got a very strong reaction: just raise my taxes if you need the money to build it, but don't put billboards in, don't change the quality of life for me in the area.

So I'd be interested in getting copies of your report and the work that you've done, if possible.

The question I had is this. Municipalities can't run a deficit. At least, in British Columbia you're not allowed to do deficit financing, so you have to break even. Would you say there is a desirable level of debt that you could see for the federal government or provincial government? Would it not be desirable to get rid of debt if you could? Therefore, the question is what the federal government should do if there are surpluses. Rather than doing what the provincial governments did in being heroes and lowering their taxes to a point where they now politically can't raise them back to a level necessary to provide the services, rather than have the federal government necessarily lowering taxes substantially other than as incentives—for example, modest tax cuts to both personal and/or corporate to stimulate the economy, although we've got a pretty good economy right now—shouldn't the federal government pay down the debt? There was a time when we were spending 40¢ per dollar on the debt. That's a lot of money that's going nowhere. It's wasted.

So I throw that to you.

Mr. Hugh Mackenzie: Let me just respond by making a point and then asking a rhetorical question. The point I would make is that from the perspective of a citizen, it doesn't really much matter to me whether the debt is held by a municipality or by a province or by the federal government. I can't get too excited about the federal government using its money to pay down its debt while the government of the province in which I live is running a huge deficit and running out and borrowing. And that leads to my partly rhetorical point.

I'm stating this a bit extremely, but would you run up your Visa bill to pay down your mortgage? Effectively, if the federal government is paying down its debt while municipalities and provinces are building theirs up, with lower credit ratings and therefore higher borrowing costs, from a public policy perspective, we're effectively running up Visa bills to pay down a mortgage. It just doesn't make any sense to me. In fact, I would go one step further and say that one contribution the federal government really could make that would make a significant difference, both to the finances of local governments and to our infrastructure crisis, is to create what is effectively a national infrastructure funding bank. That bank would permit the federal government to use its superior borrowing capacity on behalf of the orders of government that actually have to make the expenditures on these infrastructure projects. I think that might be one....

There's an element of real value that the federal government has. You can actually sit down and measure what the cost savings would be if the federal government was doing the borrowing instead of the local municipality.

The other point I wanted to make is one comment on your example about people being willing to pay taxes. I live in Toronto and watch what's going on with property tax increases, and I've been really struck by the fact that that well-known left-wing radical Hazel McCallion, the mayor of Mississauga, is raising Mississauga's property taxes by 5.7% this year and there isn't a peep.

• (1705)

Mr. Paul Darby: I have a couple of comments on the issue of debt at the municipal level, and I also want to clarify some earlier remarks.

I certainly wouldn't suggest now—I have to agree with Michael—necessarily that most provinces in fact are dealing with competitive issues around tax increases. It was only to make the point that it is at some point a constraint, that taxes could not be raised at the provincial level indefinitely without running into competitive constraints. But I would have to agree with Michael that for the majority of provinces—and Ontario immediately comes to mind—it's not clear at all that there's any competitive imperative that would prevent tax increases. For some other provinces it might not be quite so obvious, but the work needs to be done.

It's interesting with respect to municipal debt, and I have to agree...I didn't come prepared to talk about a fiscal imbalance between the municipalities and other levels of government, but that is clearly where the major fiscal imbalance lies. I think that's obvious to anyone who either looks at the constitutional issues, the tax bases, or the current issues around the provision of infrastructure and services. I have to absolutely agree with the message that's coming from Hugh and Michael that this is in many ways—and certainly now—a more important imbalance than what we're seeing between the provinces and the federal government, respecting always the fact that it looks at least as if, constitutionally, the provinces are on the hook for issues at the municipal level.

We did a lot of work on forecasting fiscal prospects for cities and municipalities. We looked at Winnipeg, for example, in some detail. The former mayor of Winnipeg financed that work.

Gas tax is a bad idea, although municipalities at this point seem to be so eager to have money that they'll take whatever money they can get. When we challenged representatives of municipalities about why they would agree to such an awful tax as a gas tax, they said it was because at least it's some money. It grows very slowly over time, and in fact it's counter to a current federal and most provincial initiatives, which are trying to lower the use of gas. So here's a tax base wherein, on the one hand, you're saying here's a source of revenue for municipalities, and on the other hand, you're saying we'd really like to lower this tax base in the interests of Kyoto and environmental protection, and so on.

The sales tax in fact, although it does have these drawbacks, from our perspective is certainly a better tax base in general than a gas tax. Yes, certainly there are fluctuations with the business cycle with a sales tax, but in fact a sales tax is based on consumption, and consumption is one of the more stable elements of demand in the economy. With a tax based on, for example, the oil price, or on exports, or on imports, I think you would see much greater fluctuations. If there's one stable component of demand and revenue in terms of the tax base, consumption is probably the single most stable.

So I have to take some issue with the notion that we have a very cyclical variable tax. Yes, it will be certainly more cyclically variable than the property tax, but the property tax is a tax going nowhere.

The other issue with respect to using sales taxes to raise moneys for municipalities in terms of interjurisdictional competition is a good one, but clearly what you have to deal with there is that you have to have the authority at the provincial level to ensure a more or less level playing field for sales taxes across the various municipalities. I'm not sure quite how you do that, or if it's legally feasible, but it's something that I think would at least need to be explored.

The issue of municipal debts is fascinating, I think. First of all, the only municipalities in the country with any significant debt are in Quebec. There are no municipalities with significant debt outside of Quebec. In fact, we asked ourselves the question, and we went around the country asking, why aren't you borrowing? Frankly, I borrowed to buy a house, and I thought it was okay. In terms of my life cycle, it was the right financial decision to make. Quebec municipalities borrow in fact quite a lot of money. It seems as if the best answer I could get was a hangover from the Great Depression, where a lot of municipalities borrowed their way into bankruptcy. There's a lot of legislation on provincial books that in fact prevent municipalities from going into debt. You mentioned British Columbia.

Honestly, there is a broad sense that more creative use of debt by municipalities would be an interesting solution to some of the infrastructure gap issues and shortfall issues that we're now facing. What is an optimal level of debt, I'm not sure; 25% of your revenues is a number that comes to mind, but more work needs to be done there.

• (1710)

I think I should stop, because I've been going on for a long time.

The Acting Chair (Ms. Rona Ambrose): Thank you, Mr. Darby. I think it's a good segue into thinking of Quebec.

Monsieur Côte, you have 10 minutes.

[Translation]

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

When receiving testimony from people at your level, the difficulty for us is to find a starting point. Mr. Mackenzie, you gave a brilliant illustration of the direct effects of the fiscal imbalance and of the domino effect of the cuts the federal government made in the middle of the 1990s.

I can well understand that a former mayor like Mr. Bell loved the last part of your demonstration, but I want to remind him that his party was responsible for the implementation of the first part of your demonstration, which was the reduction of transfers to provinces. You're absolutely right. Faced with these cuts, provinces had no choice since they must provide services that people consider essential, particularly in the health and education fields. These services require very large chunks of provincial budgets as well as the Quebec budget. So the provinces had no choice. They had to cut elsewhere in order to support these services. Municipalities have also paid part of the price. Your demonstration is very clear: initially, it was the federal government that reduced its transfers to provinces.

Can we assume that without federal cuts, reductions at the municipal level wouldn't have been as a radical? I'm wondering.

Mr. Darby, you raised a very good point about municipalities' use of their debt. It's very easy to understand. Of course, in any budget, there are liabilities and that are also assets. Putting a reasonable debt to good use in order to increase assets can in fact be a good policy.

I would first like you to comment on this. Had the federal government not made such radical cuts, can we assume that the fiscal position of provinces and hence of municipalities would have been less serious than it presently is? As a matter of fact, wouldn't this fiscal imbalance, which I believe to be somewhat structural but which impacts policies, be much less obvious than it presently is?

[English]

Mr. Hugh Mackenzie: Let me start, and then Michael can jump in.

I think if you look at the numbers, the wounds—if I can put it that way—suffered by provincial budgets were in part inflicted by the federal government and in part self-inflicted. The extent of the self-inflicted wounds varied from province to province. I think probably the most aggressive self-inflicted wound fiscally was in Ontario.

But there's no question that there was a dramatic reduction in the federal government's transfers to provinces as a share of GDP in a very short period of time—between 1994-95 and 1998—a dramatic drop. That was happening at a time when the provincial balance sheets were not strong to begin with, because they'd all been suffering from the recession of the early 1990s, which was very broadly shared across the country because oil prices were low at the same time. Provinces were coming out of a very deep recession. They got whacked very hard by reductions in federal transfers. And then on top of that, some provinces launched major assaults on their own fiscal capacity. The proof of the pudding is there.

You're asking a with-without question. I have a feeling that Ontario, for example, was so anxious to cut taxes that it would have cut the transfers to municipalities anyway. I'm not sure what other provinces would have done.

• (1715)

Mr. Michael Mendelson: I have a few points. I want to make a theoretical point, and it's a little difficult to make it. Cuts in transfer payments from the federal government to the provinces increase fiscal capacity in provinces with higher than average tax capacity to begin with. A cut in a federal transfer payment that's made equally across the country increases Ontario's fiscal capacity; it doesn't decrease it. It increases Alberta's fiscal capacity—and probably B.C.'s as well—it doesn't decrease it. That's because the federal government's tax sources are the same people, the same tax sources.

So when the federal government is collecting, say, \$1 billion in order to pay it to the provinces, if Ontario gets back 40%, it's paid in 44% or 45%. So it costs Ontario money in terms of the total capacity to pay when the federal government increases transfers. If you're talking about fiscal capacity here, if we want provinces to be autonomous and sovereign within their jurisdiction, then they have to take responsibility.

[Translation]

Mr. Guy Côté: Please excuse me for interrupting. The federal government did cutback but it didn't free the taxation space.

[English]

Mr. Michael Mendelson: Yes, and the difference here—and this is why it is a theory—is the federal surplus. If the federal deficit had remained the same, then those transfer cuts would have been translated into tax cuts and the provinces could have taken up the room, which would have been an increase in fiscal capacity for Ontario and a decrease for those provinces with less tax capacity. Probably Quebec would have ended up more or less neutral in that regard—I don't know, Paul's probably got a better sense of where that would be—but certainly provinces like Nova Scotia or Newfoundland would have ended up much worse off.

One of the complicating factors is how you deal with the issue of the federal surplus. And many of the post- and pre-comparisons of fiscal capacity that have been made from the late 1980s and even in the early 1990s to today aren't taking into account about a \$40-billion difference of a huge federal deficit, compared to a huge federal surplus, and how that's distributed.

I'm sorry to be speaking theoretically, but I honestly believe—even though I've been doing actual practical public policy in running government departments and things for most of my career—that having a very sound, factual understanding of what really is happening is important to good public policy.

[Translation]

Mr. Guy Côté: In theory, the reduction of the different transfers could have increased the taxation space for provinces. In fact, this is not what really happened. The federal government didn't free the taxation space for provinces to be able to recover that money. I like the example that was given earlier. The federal government used this money to reduce its debt. It is paying back the federal debt because it cut back transfers to provinces and thus to municipalities. It is paying back a less costly debt instead of transferring money to the provinces. This is what actually happened.

[English]

Mr. Michael Mendelson: Just to finish with my perspective, there was a political choice made. With that political choice, debt varied from province to province; but in some provinces, such as Ontario, the political choice was made not only to not respond to the transfer cuts by increasing taxes, but to do the reverse, to compound them by cutting taxes much more deeply than the province could afford.

Some provinces did try to insulate their public services, the necessary public services, to a certain extent by raising taxes. None of them, I'd suggest, really took the bull by the horns; but being autonomous means that you have to take responsibility.

• (1720)

The Acting Chair (Ms. Rona Ambrose): Thank you, Mr. Mendelson.

Madam Crowder.

Ms. Jean Crowder (Nanaimo—Cowichan, NDP): Thank you for your presentations today.

I'm from British Columbia, which of course over the last couple of years has seen substantial tax cuts, has seen substantial reduction in services, and has seen substantial impacts on municipalities. I'm also a former municipal councillor.

One of the interesting things that happened in British Columbia is that we had language that came out that originally talked about downloading services to the municipality. But then they started to talk about things like "softloading". Softloading was a code word for the province stepping away from delivering services, saying they were no longer its responsibility, and that if municipalities chose to deliver those services it would be up to them, and they'd have to find the money to pay for it. But we primarily have only the one tax source, which is property tax.

Just as a point of information, and I may have this wrong, municipalities in British Columbia can borrow money. They can't run deficits, but they can borrow money, and the municipal finance authority is one mechanism to allow them to borrow money. Many of the municipalities do finance projects—cautiously—borrowing money to finance major projects such as sewer and water, for example.

This is an interesting discussion, because this is a new version, to me, of trickle-down economics. Usually when you hear about trickle-down economics, you're hearing that if you do these tax cuts it's all going to trickle down and life will be wonderful for the people on the bottom. In a simplistic way, that's the way it's usually sold. But we have a trickle-down here that's very interesting. You have the federal government that cuts transfer funds and other things to provinces, which at the same time have introduced tax cuts in some provinces. This has compounded their shortage of cash, which then trickles down to the municipalities, which are now stuck with limited capacity to deal with the infrastructure deficit, which is rampant. And not just in big cities: many of our smaller municipalities are in serious crisis because they have even less capacity to raise revenue, and much of the infrastructure is in dire straits in the older municipalities. Some of the older municipalities have water lines that are 90 years old and need repair. It's a crisis in many of the smaller municipalities.

We're heard now from a couple of different witnesses who talk about this not being a vertical fiscal imbalance. Professor Dobell on Monday said the same thing, that we actually have the question wrong. It sounds as if part of this has been manufactured through perhaps a lack of political foresight about long-term impacts. Professor Dobell suggested one of the ways we get ourselves out of this pickle is to actually learn to work together at all three levels of government in a constructive, harmonized, cooperative way.

How do we get out of this mess, in five minutes or less?

Mr. Guy Côté: I have a solution.

Ms. Jean Crowder: Let me put a caveat here. I come from a perspective such that I would like to see a strong federal presence maintained, with all due respect to *mon ami*.

Mr. Michael Mendelson: It's interesting that Rod said that. I had no idea, of course, that he had made those comments. I know him well, and I certainly respect that.

I don't know if it's realistic to look for a nirvana where the provinces, the federal government, and the municipalities will all work together as one. I think that in fact one of the strengths of Canadian federalism is the autonomy of provinces and their capacity to act as sovereigns within their jurisdictions. I'm not sure I would want to see that change. I know I've stressed the autonomy of provinces several times in my presentation, but the flip side of the provinces having autonomy is that they also have to have responsibility to manage their budgets. In my view, if they want to maintain that autonomy, then they're going to have to accept independent decision-making, and that means not a group-think.

I'm not talking about municipalities here. I'm not really addressing that role, which I can in a minute.

My bottom line is quite seriously this—and I've said it, by the way, to Ontario business audiences as well. I'm just speaking now of Ontario. Ontario is going to have to raise its taxes. I'm not sure which tax sources. I know that when Roy Romanow was Premier of Saskatchewan and was confronted with a fiscal crisis, he raised sales tax revenue by a point and, I think, also gasoline tax. I'm not sure what else he raised. But he did what he needed to do. I think provinces are going to have to accept that they are going to have to take that responsibility and do that.

I think politicians—not reflecting on present company—need to begin to speak more honestly about what the situation is and say, “We have a structural deficit, and we have to do something about it. There is no magic solution. We're not going to get savings out of the sky somewhere. We're not going to find efficiencies that are painless for everyone. We have to raise taxes, and we're going to do it”. Until six or seven years ago, governments came into power—Conservative, NDP, and Liberal governments—they looked at the fiscal situation, and they did what was necessary. Sometimes it was necessary to raise taxes, and sometimes they found ways to lower taxes. I think we have to have a flexible fiscal policy again. It is absolutely critical.

I'll turn now to municipalities. I don't think the federal government can solve the municipal issue. I think municipalities do have additional borrowing capacity, but not much. They're limited by their capacity to service that debt, and they do have very limited capacity to service that debt because their only source of revenue right now is the property tax and because they're very vulnerable to whatever the heck the province decides to do.

Furthermore, the point Hugh was making is that tax sources are to varying degrees mobile. The more mobile the tax source, the higher the level of jurisdiction that should be taxing it, so to speak. It's difficult for provinces to tax capital because it's very mobile. But consumption taxes, such as the sales tax, are not as mobile. Personal income tax is not as mobile a source.

But municipalities have very few sources that aren't for them too mobile. A sales tax in the city of Toronto is impossible, because Mississauga will have a lower sales tax. That's not possible. It's the same thing in the Lower Mainland in B.C. It has to be all or nothing. There are not many tax sources for which it makes sense to give the capacity to cities. I think it's a trap for cities. It's one thing for the province to designate that a certain percentage of its tax will go to municipalities, that's just a transfer, but to actually give municipi-

palities a tax capacity is, I think, a trap for municipalities, other than some very local taxes. But even development charges are, I think, questionable, and certainly tax holidays and so on lead to competition.

• (1725)

So my view is that it has to be solved at the provincial level because of the constitutional realities. That means the provinces have to take the bull by the horns and raise taxes.

Mr. Paul Darby: I agree mainly with Michael, but I guess not entirely. Here's the way I'd approach it, if you would.

If there are defined national policy priorities that lie in the provincial jurisdiction—and let's just use health as an example—and the federal government has surpluses above and beyond what the public feel would be reasonably allocated to debt reduction, then it would make sense to me for those surpluses to be allocated to the national priority, even if it lies in a provincial jurisdiction, or for the federal government to open up the fiscal room, particularly by lowering its own taxes. However, once that is beyond us, and once we've also put in equalization formulas, which do address the issue of equal fiscal capacity, then I have to agree with Michael that it's then up to the provinces to independently and responsibly deal with their fiscal issues.

I think it's naive to think the federal government could run a \$50-billion surplus while the health care system is crumbling and collapsing, if I can be dramatic. Now, I don't think we're in that situation, because I think we've seen transfers from the federal government to the provinces increased dramatically for health care over the last two or three years. We are potentially not all the way to a situation in which the federal government doesn't have significant surpluses, but we are certainly at least partway down that road.

I think the first thing that has to happen is that the federal government has to decide whether there are some—I'm repeating myself—national priority policy initiatives that lie constitutionally with the provinces that they feel are important to fund. To the extent that this is the case, then some of the surpluses—I'm talking surpluses only now—that exist at the federal government level may be allocated to those priorities. Note that what you need to do that work is some sense as to a projection of those costs going out 15 or 20 years. Once you've done that work, I'd have to agree with Michael that the provinces have to be grown up about this and deal with any fiscal shortfalls they may be facing after that.

I think it's very important for the committee to recognize that there's a more fundamental issue here than just fighting for money between the feds and the provinces at this point. If we want to talk about health care, let's talk about the fact that by the time we get to the year 2050, the health care demographic pressures we're facing now are going to look awfully small. There may be a deeper issue in terms of going forward for long-term planning of whether we can really afford this. And certainly, can we afford it with tax levels, provincial and federal and municipal, all taken into one big ball of wax?

If you want a health care system in 2050 that looks like it does now, with 25% to 30% of the population over 65, you may indeed have to raise taxes. You won't have a choice, because you're asking for a service that at the current tax and fiscal level you can't afford. Or you may make the choice to say you don't want a Cadillac health care service, so you'll pay for less. But somehow the public has to be educated that you can't have both.

I know that's tough. I didn't want to be a politician myself because that's a very hard sell. It's a lot of work.

I digress a bit.

• (1730)

So I think that's, to begin with, partly how I would solve the problem. I think the other issue in terms of solving the problem is that, again, the fight over "strings attached", if I can put that in quotes, has to be quickly resolved. We've got to get past that, because I think it's now blocking in many ways the development of important policy initiatives in Canada, in early child care and learning, for example. Honestly, I tend to be more in the camp of trusting the provinces.

Ms. Jean Crowder: Unless you live in B.C.

Mr. Paul Darby: You might want to have, five or so years down the road, some performance-based management indicators, and pull the funding, maybe, at some point—give them enough notice. But I think the point is that the provinces are grown-up, constitutional entities, and they have tools.

I'll stop there.

The Acting Chair (Ms. Rona Ambrose): Thank you, Mr. Darby.

Thanks to all of you for coming and presenting to the committee. I apologize for our late arrival.

We have about eight minutes left, so if the three of you would like to take a couple of minutes to wrap up or make concluding remarks, you are welcome to do so.

Mr. Hugh Mackenzie: Maybe what I'll do is say what I would have said in response to a couple of questions that were asked that I didn't get the opportunity to raise.

If you want to cut through everything, the bottom line, taking Paul's point about looking off into the future as a given, is that right now, today, governments are not generating enough revenue to pay for the public services people want. That means the simple solution to the problem is that taxes have to go up somewhere. Somewhere they have to go up: either the federal government raises the taxes on behalf of the provinces and passes the revenue on to them, or something, but something has to happen, because right now we are not generating enough revenue to pay for the public services people want.

The second point I'd make, with respect, is with respect to municipalities. To a certain extent this applies to the relationship between the federal government and provinces with respect to revenue as well. I think it's important, when you are thinking about funding for municipalities other than property tax, to distinguish between giving municipalities access independently to tax bases

other than the property tax and guaranteed revenue-sharing that's linked to revenue from other tax sources.

The distinction is important. I've spent a lot of my working life thinking about property tax issues in one way or another. I used to paraphrase Winston Churchill, when talking about property taxes with municipalities: they are the worst possible revenue source for municipalities except for all the others. And there's a point to that. It's a terrible revenue source for a lot of the things municipalities have to do, but the one virtue it has is that it's a tax base that can be defended against avoidance, and it's one of the few large general revenues bases that can be. If you're going to, for example, provide sales tax revenues to municipalities, the only practical way to do it is for provinces to create the umbrella under which municipalities can draw sales tax revenue. If you don't, you're going to end up with border issues that will produce "lowest common denominator" competition, which in turn will basically make the tax base meaningless.

• (1735)

Mr. Paul Darby: First of all, let me suggest the issue this subcommittee is dealing with is, I would argue, probably the single most important policy issue facing the country today. I'm not sure what happened in the House today, but I would hope that normally you have more people at the table.

In my own view—and I worry about my children—we have to get this one solved as best we can going forward. I applaud the fact that the subcommittee exists and I wish you the greatest of luck in trying to deal with this thorny problem, because frankly I think it's fundamental to the future of the country. And the issues in many ways, I suggest, are not going to get smaller; they may indeed get worse as we go forward.

The only other issue I would raise is that we also have to be a bit careful as we think about—this is a repetition—how, certainly for Ontario, there's a fundamental fiscal problem. It's not clear that's the case for Alberta. In fact, the discussion about whether or not there's now enough money to pay for all the services taken in total.... The provinces are right now in surplus to the tune of about \$2 billion, and it looks as though there's a lot of money. So we have not only—again I want to repeat—this fiscal imbalance clearly between the cities and other levels of government, but politically, potentially between the provinces and the federal government, and certainly between various provinces in terms of their fiscal capacity at the current time. I think that's something else that only complicates the life of the subcommittee but needs to be remembered.

Mr. Michael Mendelson: Just one specific point for you to recall and keep in mind, in my view, is that equalization is the cornerstone on which anything you do needs to be constructed and understood. So you need to keep in mind how an equalization program ought to be functioning, since it is the way that transfer payments could be made to provinces, and in theory, at least until recently, they can maintain their autonomy.

As I was saying when we were talking earlier, I sat in this room in 1981 with the Parliamentary Task Force on Federal-Provincial Fiscal Arrangements, when we had what turned out to be a relatively minor adjustment made in the established programs financing act. For those of you who remember, it was getting rid of the revenue guarantee. Maybe some of you actually do remember. It was taken pretty serious.

I suppose the point I would like to add to what Paul said is that this is an incredibly important issue. Fiscal federalism is the backbone of Canadian federation, and it needs to be done right. There is not enough priority being given to it. I've heard people call for a new Rowell-Sirois commission at that level, and I think that's not illogical, but certainly I would like to see Parliament perhaps

paying more attention to this issue and that it becomes a significant political and public priority.

I'm worried that too much is going on behind closed doors in ways that aren't involving parliamentarians, that aren't involving the public, that aren't involving the provinces. It needs to be raised up a notch and taken much more seriously. We need strong, stable fiscal arrangements that can make the federation work.

● (1740)

The Acting Chair (Ms. Rona Ambrose): Thank you very much.

Once again, I apologize for the delay of the meeting. Thank you for your presentations.

The meeting is adjourned.

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