



House of Commons
CANADA

Subcommittee on Fiscal Imbalance of the Standing Committee on Finance

SFIS • NUMBER 016 • 1st SESSION • 38th PARLIAMENT

EVIDENCE

Wednesday, May 4, 2005

—
Chair

Mr. Yvan Loubier

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

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

Subcommittee on Fiscal Imbalance of the Standing Committee on Finance

Wednesday, May 4, 2005

•(1535)

[Translation]

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

[English]

Good afternoon, everybody.

[Translation]

Before starting, I would like to welcome Marie-Pierre Mona Arguin, member of Parliament for a day. She won a contest held by my colleague from Longueuil—Pierre-Boucher, Ms. Caroline St-Hilaire. She is accompanied by Mr. Georges Dupuis, her national history teacher at the Jacques-Rousseau comprehensive school.

I would like to welcome all of you. We have to prepare the new generation, and Marie-Pierre is starting her new political career as a member for a day.

[English]

Thank you very much, Mr. Courchene and Mr. Lazar, for being here to participate in this exercise to find solutions to fiscal imbalance.

[Translation]

Thank you, Mr. Courchene and Mr. Lazar for having accepted our invitation to appear before the committee today. We have known each other for some time, Mr. Courchene. I knew of you before we actually met, as I used a number of your many macroeconomics textbooks. It is always an honour for me to welcome you here.

This subcommittee has until June 2 to report to the House of Commons on sustainable solutions to the problem of fiscal imbalance. The problem can be summed up as follows: the federal government has fiscal resources which are disproportionately high when compared to its responsibilities. The provinces, on the other hand, including Quebec, have insufficient fiscal resources given their responsibilities. This prevents the provincial governments from carrying out their mandate.

To illustrate the effects of the fiscal imbalance, one needs only consult the Conference Board of Canada's analysis, which predicts that over the next ten years, surpluses of several tens of billions of dollars will gather in federal government coffers while the provinces face increasing deficits especially given their heavy responsibilities in the area of health care. One must also bear in mind the aging population, an annual growth in demand of 6 to 8 per cent, underfunding of education and so on.

This subcommittee's goal is to find Canada-wide sustainable solutions to what amounts to an old problem. The problem neared its head in the mid-1960s, and in the early and late 1970s. Each time, new tax arrangements were found, or transfer payments to the provinces were increased, thereby enabling them to fulfil their mandates.

You have 20 minutes, Professor Courchene, to present your point of view. Then, there will be a question period during which parliamentarians from all parties will ask questions. Mr. Lazar, you will also have 20 minutes, followed by a question and answer period with my colleagues.

Mr. Courchene, the floor is yours.

[English]

Professor Thomas J. Courchene (Jarislowsky-Deutsch Professor of Economic and Financial Policy, Queen's University; and Senior Scholar, Institute for Research on Public Policy, Montreal) : Thank you very much, Mr. Chairman.

Thank you for inviting me to appear before your committee today to share some of my thoughts on horizontal and vertical fiscal imbalance.

We only have one member here from Ontario, but I'm going to focus on an issue that's current this week, particularly on Saturday, when the two first ministers will apparently meet.

I want to talk about vertical and horizontal imbalances from an Ontario perspective, but this is something that my colleague Harvey Lazar will eventually get into.

Let me first say that in my latest book, called *A State of Minds*, the focus was on the shift from the mentality of a resourced-based economy to the mentality of human capital or a knowledge-based economy. What happens there is that the urban issue becomes more important, human capital becomes more important, obviously, and beyond that, citizens' issues become more important in general.

The reality in Canada is that a lot of these citizen issues are in the provincial domain. So in order to gain electoral credibility or electoral saliency, the federal government is going to start invading these areas. I've called that hour-glass federalism, and I talk a little bit about it in the paper.

The BNA Act, or British North American Act, is being flipped on its head because of the changing nature of the global economy. There is no one answer to what the appropriate fiscal balance is. My colleague will go into that in a little more detail.

I want to focus on an issue that is not very popular to talk about. You think that the fat cats in the system, like Ontario, can handle themselves, but I think that in terms of this one area, Ontario has a fiscal imbalance. I want to direct attention to that. I will focus on the two charts at the end of my paper.

Let me begin by saying that these Ontario concerns go a long way back. In fact, my first recollection of them is when Premier Bob Rae asked Informetrica, which is a consulting firm here in Ottawa, to prepare a list of problems that Ontario was having with the federal government. Each of them was in a separate paper.

Included in there were the arbitrary changes in the EPF transfers; the cap on the Canada assistance plan that affected the three provinces of Ontario, Alberta, and B.C.; the agreements on labour market development, which Ontario never had signed and that still haven't been signed; the differences between Ontario and Quebec in immigration funding, EI issues—it was largely on premiums—and regional benefits; and to this, of course, Premier Harris, when he was in charge of the Ontario government, added the CHST tax cuts.

All of these are part of Premier McGuinty's concerns when he speaks on this issue, but a lot of these costs have risen considerably. On the immigration side, for example, if Ontario were to get the equivalent to Quebec, setting aside the \$50 million or \$60 million for the administration of Quebec's program that Ontario doesn't have, it would be another \$340 million to Ontario. An agreement on labour market development would also be something in the neighbourhood of \$314 million. I calculated that.

It's part of the problem that McGuinty apparently has with Ottawa, but I think the real issue, the proverbial last straw, was the signing of the offshore energy accords. Once that happened, Saskatchewan wanted to claim a zero clawback treatment for its energy, the same as the two maritime provinces. Quebec started to argue for similar treatment for its hydro rents. Since Ontario pays roughly 43% of all federal spending and, therefore, all of these preferences, the Premier of Ontario put in his own claim, namely that Ottawa should pony up about \$5 billion in cash to ameliorate the \$23-billion deficit.

Now, what's interesting, and something that my colleague might talk about, is that throughout this period, the federal members from Ontario, in Ottawa, were always on Ottawa's side and were never on Ontario's side. This changes a little because this time Premier McGuinty is talking to his own members in his own party in Ottawa. This is a very strange asymmetry. I only hope, and the other provinces should hope, that this won't go unchecked to the point where Ontario voters will force their elected politicians to be Ontario-first MPs, because one of the ways in which Ontario has contributed to the economy is that they aren't typically Ontario-first members of Parliament.

● (1540)

The second part of my discussion relates to a paper by a great student of mine named Warren Lovely, something titled "Killing the Golden Goose". He talks about the origins of the \$23-billion deficit. The deficit is the difference between what Ottawa takes from Ontario citizens and what Ottawa puts back into the province. In 1995, the difference was about \$2 billion. As part of the 1995 budget, Ottawa kept getting enormous revenues or dramatic increases in revenues from Ontario. There were then cuts in transfers, which applied to all

the provinces, not just Ontario. They open up a relatively large gap of \$23 billion.

It's important to point out that in normal times any province like Ontario, Alberta, or British Columbia is going to give more money than it's going to get back. That's the nature of our progressive income tax system. It's just that \$23 billion is a large amount. The difference between Ontario's income and its population is about 10 percentage points. It pays about 43% of Canada's personal income tax. It contains about 39% of the country's population. This \$23-billion gap is 25% of the revenues that Ottawa collects and 40% of the amount that Ottawa puts back into Ontario. I think there is a problem.

Ottawa moved towards surplus as the increase in the withdrawals from Ontario took place. So Ontario is seen as funding part of the federal move to surplus. This, however, is true of all provinces. Everybody seems to be moving in the direction of contributing more to Ottawa than Ottawa is putting back in. In the other nine provinces, in aggregate, it turns out that they're moving from benefiting by about \$30 billion to only about \$10 billion. It's still a reduction in the amount they were getting from Ottawa. There has generally been a move towards Ottawa drawing more out of the provinces than it's putting in. This is annoying to the provinces because they're under fiscal constraint while Ottawa is racking up successive surpluses, putting money into reducing its deficit, and indulging in a spending spree in provincial jurisdictions. I sometimes think of Ottawa as the eleventh province, given where its spending priorities lie.

Under the equalization program as it exists in 2004-05, the five-province standard for equalization is \$6,301 per capita. According to the formula, four provinces receive no equalization: Ontario, Alberta, B.C., and Saskatchewan. This is the five-province standard. Under the 10-province standard, Saskatchewan would receive equalization. In any event, the amount spent on equalization is \$9.1 billion. All the poorer provinces get up to \$6,301, while the other provinces stay where they are. Ontario at this point is \$430 higher than the equalization standard, so it gets \$6,733. The average receiving province gets \$6,301. So Ontario has \$430 more.

● (1545)

I then add the Canada health and social transfer cash. This amounts to about \$848 per province, except that there's a further equalization program that goes on here because the richer provinces, particularly Ontario and Alberta, have personal income tax revenues above the five-province standard. Their cash is decreased by the amount of that excess, so Ontario receives about \$80 per capita less in cash than do the other provinces; in Alberta, the gap is even larger.

This reduces Ontario's excess in row 5. Now Ontario is only \$350 per capita above everybody else. I should note on this \$80-billion shortfall for Ontario that the Ontario government would argue that if it got this \$80 back, it would solve one twenty-third of its problem. It would be \$1 billion that it feels it should get. The argument is that we've already equalized these dollars once; why do it a second time?

The next thing is to talk about the new equalization agreements from last fall. They take this \$9.1 billion that was equalization in row 2004-05 and bring it up to \$10.9 billion for next year, and then they start indexing at 3.5% a year.

What I've done in this column is to age that out for six years. After six years, the new money in equalization—assuming it's only going to the have-not provinces—every receiving province will get an extra \$384 per capita. If that money was overlaid on the current equalization program, then you'd get row 7, where you would see, at that point, that every province would have more dollars per capita than Ontario.

There are a few important assumptions here. The most important one is that I'm assuming that equalization, the basic formula, would stay the same six or seven years from now. The argument is that it'll go up. But remember, in the last two years it's gone down, and that's why the equalization provinces were worried, because it had gone down. Maybe it was only one bad year for Ontario, but nonetheless that is an assumption.

The other way of looking at it is that Ontario is \$350 above the equalization standard now, and at maturity this additional equalization is going to give all the receiving provinces about \$600 per capita. Unless Ontario gets relatively richer, what's going to happen is that the other provinces are going to bypass it. That's one of the problems.

The other challenge—and Ontario doesn't talk about this much—is that since Ontario pays roughly 43% of all federal transfers, this extra \$5 billion or \$6 billion annually in equalization by the end of the new formula, it means a little over \$2 billion of it will come from Ontario, and Ontario won't get any equalization payments. There's a funding issue as well as the other issue of who gets what.

The final thing I want to talk about is much more controversial still, and it's called capitalization. The U.S. doesn't have an equalization formula, and one of the reasons for this is that it doesn't care much about redistribution of any kind, to states, to individuals. Why have an equalization program if you're not going to redistribute anything? That's a pretty negative view of the American system, but there's another approach to this, which would be that there's nothing to equalize, because while Mississippi has lower incomes and revenues than New York, its wages, prices, and rents are much lower, so that it all comes out in the wash and there's nothing to equalize. In the U.S., they assume that there's 100% capitalization, so there's no difference in the effective revenues per capita.

We make the opposite assumption, that there's zero capitalization, so that any increase in revenues automatically generates an increase in the ability to provide public goods and services. But we know this is not true. Wages and prices and rents are higher in Ontario. Wages for nurses are higher, civil servants, university professors, teachers,

as well as fee schedules for doctors. The accommodation allowance for welfare recipients is higher in Ontario than it is in—I'll use New Brunswick, but I could use Saskatchewan.

What this means is that revenues per capita don't convert into the same physical or real numbers. If you talk about the numbers of teachers, numbers of social workers, numbers of medical procedures, you need more dollars, more revenue per capita, in Ontario to deliver those than you need in other provinces.

• (1550)

So the assumption of 100% capitalization is wrong, but so is zero capitalization.

In the table, I just take average wages in Canada and use them as an index, which appears in row 8, and apply that index to the figures in row 1 that show the effective differences in annual yields. It ends up that whereas Ontario was \$2,000 above New Brunswick without capitalization, under this group type of capitalization it is only \$1,250. So one could argue that if you don't take capitalization into account, you're overestimating the real differences in these data.

Finally, what I do is take the actual equalization figures from row 3 and use this capitalization procedure. Once again, Ontario comes out \$400 or \$500 below any other province.

I might as well go to the final point here and say that I don't know what to conclude from this. I am serious in saying that, because I don't think anything.... I guess we're having this blue ribbon committee in the fall that's essentially going to look at equalization, but they also have to look at all that we have to do about the redistributive nature of Canada. This is one of the problems they'll have to take into account, both to make sure we're not over-equalizing, because we're not looking at capitalization, and they'll probably want to take needs into account, which are important as well. That's a separate issue that one could write papers about.

They'll have to take into account the stuff that I've done earlier, which other people have focused on, that Saskatchewan has something like a 90% tax rate now on its resources—and at one point it was over 100%—and Newfoundland now has a rate of zero. There are some numbers between zero and 100 that ought to be thought about, rather than keeping the status quo.

Also, we have some concerns about how we accommodate the Newfoundland and Nova Scotia accords. They're in there permanently, so are there ways you can redesign the system so that these accords will have minimum effect and can be brought into a system that's most equitable for the other provinces?

We also have to worry about the funding side of the formula, because if you go to a ten-province standard, for example, it generates enormous increases in the equalization formula, all of them coming from Alberta oil—but Alberta oil is not really contributing to Ottawa's revenues, so you have a funding disconnect here. When Ottawa spends money on equalization, it typically is from its general revenues, which is 43% Ontario, even though Alberta is driving up the reason for that funding.

So there are all sorts of issues; it's a very complex problem. All I'm trying to point out here is that into this mix one should put these legitimate concerns about Ontario. I encourage you to read the overview quote I have from Joey Smallwood, which suggests that it's politically very difficult to feel sorry for Ontario. I think that's right, but I still think there is a valid issue here that has to be addressed, not on its own but in the context of putting back together the redistributive aspects of the Canadian federation.

• (1555)

[Translation]

The Chair: Thank you very much, Professor Courchene.

Professor Lazar, you have 20 minutes to make your presentation. We will then move on to a question and answer period with my colleagues from the various political parties.

Professor Harvey Lazar (Director, Institute of Intergovernmental Relations, School of Policy Studies, Queen's University): I did not understand what you said. Do you want me to start my presentation now?

The Chair: Yes. After that, specific questions will be asked of you.

[English]

Prof. Harvey Lazar: Mr. Chairman, thank you for the invitation to appear before the subcommittee.

[Translation]

I would like to thank you for this invitation.

With your permission, Mr. Chairman, I will make my comments in English.

[English]

I'm going to confine my remarks to the issue of vertical imbalance. I testified last year before the Standing Senate Committee on National Finances with regard to equalization and horizontal imbalances, and I have nothing to add to my remarks there. On the question of vertical imbalance, I want to make only four points. I hope I'll be relatively brief.

First, some analysts treat the terms "vertical fiscal gap" and "vertical fiscal imbalance" as interchangeable. I do not. For me, a vertical fiscal gap is a simple accounting identity. It measures the extent to which one government depends on another government's cash transfers as a source of financing—nothing more than that.

In contrast, a vertical fiscal imbalance is a political and policy concept. I personally buy into the definition that when one order of government has more fiscal resources than it requires to meet its spending obligations and the other order of government is in the opposite situation, there is a vertical fiscal imbalance.

This means that if the federal government increases its cash transfers to the provinces, it increases the vertical fiscal gap and reduces any vertical fiscal imbalance that might exist. But if Ottawa transfers tax room to the provinces, both the vertical gap and vertical imbalance decline.

In his testimony before this committee, Professor Watts made reference to his comparative study of fiscal relations in some 11

different countries. I think this showed that by international standards, the vertical fiscal gap in Canada is rather small. So I just want to make that distinction between gap and imbalance.

The second point I'd like to make is an historical one. There's an ebb and flow to the fiscal position of the federal and provincial governments. Coming out of World War II, the federal government had a much stronger fiscal position than the provinces. This was gradually weakened over time through three developments. First, the federal government returned to the provinces some of the tax room it had rented during World War II. Second, provinces raised additional revenue by increasing their tax effort, their tax rates. Finally, the federal government transferred cash to the provinces in negotiated cost-sharing arrangements to help build the welfare state.

By the early 1980s, the provincial fiscal position had become much stronger than that of the federal government. The federal government was running fiscal deficits without even taking into account the amount of money it was transferring to the provinces. After its cash transfers to the provinces, it had truly huge deficits. The 1980s and the first half of the 1990s saw high levels of federal deficit and an accumulation of federal debt, much more so than at the provincial level.

In the mid-1990s the tide shifted again, and since the late 1990s the federal fiscal position has been stronger than that of the provinces, particularly if we exclude Alberta. So I guess the point I'm making here is simply that there is an ebb and flow, and I doubt there was ever a moment at any point in time when there was perfect vertical balance, and if there was no one would have known it anyhow.

The third point I want to make is that much of the current political discourse around vertical fiscal imbalance suggests this is a measurable technical concept. People sometimes equate this with calculations made by the Conference Board or someone else. But vertical imbalance is anything but a technical calculation. If one accepts the definition I used a minute ago, we must have some sense of what the spending obligations of the two orders of government are and whether each order of government is taxing appropriately or optimally.

Just to speak these words is to make clear that vertical fiscal imbalance cannot be a technical concept. Federal and provincial spending obligations are determined by political preferences, and political preferences vary according to differences in objective conditions and ideological perspective. For example, if there were to be a serious terrorist incident in Canada in the weeks or months ahead, the federal government might easily respond by spending additional billions of dollars on national security—say five or ten billion dollars a year. This hypothetical response would have the support of some Canadians but not other Canadians. If there were a vertical fiscal imbalance today in Canada, it would almost certainly disappear in the eyes of those who supported the additional spending for security, but those who were opposed to that additional security would have a contrary view about vertical fiscal imbalance.

•(1600)

So is there a vertical fiscal imbalance today in Canada? That's a nice question. You will not be surprised by this point to learn that the answer to this question cannot be determined by some arithmetic calculation. The federal government has argued that there is no vertical fiscal imbalance and there cannot be one when both orders of government have largely unfettered access to the main tax bases in the country. This argument, I believe, is theoretically sound, but nonetheless, in practical terms it's simplistic, if not just plain wrong.

The government that is the first mover in taxation can occupy space that makes it hard for the second order of government to tax, for fear of overtaxation, recognizing that both orders of government have the same taxpayers, and by virtue of World War II, Ottawa was the first mover in several major tax fields.

On the other hand—as you know, with all economists, it's one hand and the other hand—it's also the case that the provinces have reduced tax rates in recent years and, at the same time as they were reducing tax rates, were proclaiming shortages of revenue. Last year's tax increase or health premium increase in Ontario stands as an exception to this statement.

There's also an interesting study by Professor Ruggeri of New Brunswick that suggests the pattern of recent years has in fact been present since 1867, with provinces often preferring to look to Ottawa for money rather than raising it themselves. On balance and taking account of the myriad of arguments on both sides—and both sides make many arguments—I believe a case can be made that there has been some degree of vertical fiscal imbalance in the federation in recent years.

For one thing, if there had been no vertical fiscal imbalance, as the federal government has been insisting in its arguments, then why is it transferring more money to the provinces if it thought the provinces had enough money?

Secondly, almost all the federal increases in the last several years have been in areas of provincial legislative competence under the Constitution, as my colleague Professor Courchene has mentioned. At the same time, it's important to note that since Ottawa has indeed increased sharply its cash transfers to the provinces in recent years for health care, equalization, communities, and so on, any vertical fiscal imbalance that might have existed three or four years ago is likely much smaller today. Given that this is a political and policy concept more than a technical one, I can't actually give you anything like a firm number, but my sense is that any vertical fiscal imbalance that does exist today is measured in the billions of dollars and not the tens of billions, and I think projections that go out 30 and 40 years are irrelevant for this particular purpose.

I might add in passing that there are a number of ways to reduce the imbalance, ranging from higher provincial taxes or reduced provincial spending to an increase in cash or tax transfers from Ottawa to the provinces, to more direct spending by Ottawa. Under some of these approaches, the vertical gap—not the imbalance, but the gap—rises, and in other approaches it falls. From your perspective, I think, in theoretical terms, it's useful for you to have some idea of the desirable level of fiscal gap in selecting amongst these options.

For my part, I see little objection to maintaining the current level of vertical gap. I think there needs to be some measure of flexibility in Ottawa to ensure that Canada-wide programs of redistribution are available and that other constitutional obligations can be met by the federal government.

So I may not have confused you enough yet, but if you ask me questions, I can confuse you more. Thank you, Mr. Chairman, for your time.

•(1605)

[*Translation*]

The Chair: Thank you, Professor Lazar.

The last part of your presentation did indeed lead to a little confusion. I will come back to this a little later. But for now, Ms. Ambrose has the floor.

You have seven minutes, including your questions and comments as well as participants' answers. You can direct your questions or comments to either professor.

Ms. Ambrose.

[*English*]

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

Welcome, Professor Courchene and Professor Lazar. It's an honour to have you here. I did my master's in public policy with Allan Tupper, and he...I shouldn't say he “made” me read all your stuff, because I enjoyed it very much, but it's an honour to meet you in person and hear from you.

I want to talk to you about what I think Professor Courchene referred to as “hourglass federalism,” and in particular, when you talked about citizenship issues at the beginning of your presentation, many of which fall within provincial jurisdiction, as you noted. It's something that I refer to as creating political relevance. I know a lot of this is political to a certain extent—the federal government today and in the last 10 years using the surplus to move into areas of provincial jurisdiction to create this kind of relevance. I feel strongly that it ends up skewing the efficiency of program delivery in very important social program areas because of duplication and duplicating provincial programs. Frankly, I believe it's a bad way to do public policy.

One of the latest initiatives in the last number of years has been creating political relevancy, I would say, in the cities agenda, and you both refer to that in your presentations. These are very important issues for municipalities, but my concern is that this is actually going to exacerbate the fiscal imbalance further over the next several years instead of actually solving these problems in the long term.

You focused on provinces and on Ontario. I wonder if you could talk more about the impact of the federal government attempting to create this kind of political relevance in an area that is obviously not their jurisdiction, and for municipalities, what the impact of this is politically, but more than anything on public policy.

Prof. Thomas J. Courchene: That's a huge question. Let me start by describing what I meant by hourglass federalism. It arises from reasons I suggested that the things that matter for sovereignty, I think, and for electoral saliency and for income in the future are now under provincial jurisdiction. Human capital is key. We want greater accountability. Therefore we want education. We want health. All of these are provincial matters, but that's where competitiveness also lies. So if competitiveness is at stake, Ottawa's going to be there no matter what the Constitution says.

But in any event, the process is starting to flip the BNA Act on its head. Ottawa gives to the provinces, and says, "Here, you can have some resources. You can have some of the mining. Those aren't the stuff of nation building anymore, so you can have them back". But we have to figure out how we're going to get at those things. This is my vision of what happened, and I don't say that when Paul Martin was Minister of Finance he was intent on doing this, but it had the following result.

Cutting the health and social transfers had the opposite effect on the provinces. They couldn't cut health, so they had to cut everything else. Everything else gets cut. If you look at the latest British Columbia budget, they project that over the next five years they're going to spend \$2.7 billion. The budget on health for the next five years is \$2.7 billion. Nothing else gets spent on—maybe there are some ups and downs—and therefore these starved areas are anxious to go to Ottawa to get funding.

Canadians might like this. It's probably very popular among Canadians. But it starves the provinces in those areas of provincial jurisdiction, and it allows Ottawa to make an end run around the provinces and be invited in there to do millennium scholarships, to do all sorts of good things that Canadians like to do, to give child tax benefits, to do something for cities. In that sense, that's hourglass federalism. The provinces are getting squeezed in the middle of this since they are spending money directly to enhance the power of the bottom of the glass, the citizens.

Cities have also become the new dynamic motorist in the knowledge economy because that's where knowledge clusters, so they become important. In fact, the mayors of the big cities in Canada are going to be better known internationally than their premiers. The thing I'm talking about for Ontario happens even more so with respect to the cities, because that's where capitalization takes place most. They need more revenues, and you can argue it's a provincial issue. And of course it is. But when you look at the gas tax, they take money largely from the big cities, but when it gets to Ottawa it has to be divided equally per capita because that's the pervasive ethic in the federal government. It's more distributive than allocative.

So Toronto gets back an equal per capita share. It gets back the same share as Kingston or as Carleton Place, and it really needs a lot more. So that's another fiscal imbalance we're going to hear more about in the future. The cities are going to demand to get their place in the Canadian federation, and so that's another part of this political salience thing that's happening.

But really what I'm talking about is a dramatic change in the role of the citizen-state relationship in Canada and perhaps a change in the way the provinces want to relate to Ottawa. One of the things that

would have helped all of this out is if Ottawa had said, "Okay, fine, provinces, do you want to give us pharmacare? We'll take pharmacare". Then Ottawa would have been spending a lot of money in its own jurisdiction and this issue wouldn't come up so much. It would have taken a big burden off the provinces. Ottawa would be having its own national pharmacare program. There'd be fewer transfers to the provinces because of this. It would have helped out a lot. Ottawa said no to that for reasons of... I think it missed a very good chance to do so. But it's that sort of thing that's going to get changed because of the changing nature of what competitiveness and social policy mean in the 21st century.

• (1610)

Ms. Rona Ambrose: Do I have more time?

The Chair: Yes, Madame Ambrose. Unfortunately he—

Prof. Thomas J. Courchene: Just let me answer your question. Yes, it is the case that as Ottawa spends this money, it's going to be done along lines and priorities that are different from what the situation would have been if the provinces had spent it. That also is part of hourglass federalism. Again, this is a political issue. Some people may prefer that.

I think one of the things we were seeing in the Council of the Federation...and I deem this to be a really important issue. When they said that Quebec would opt out of the pharmacare proposal and the rest of the provinces would work with Ottawa...or in the asymmetrical proposal that Ottawa had with Quebec in terms of the health accord in 2004...that was a way we might get around all of this. What really happened is that everybody said it was Quebec that was opting out. But it isn't that Quebec is opting out. Quebec is not doing anything. They're staying where they were. The rest of the provinces are opting in to a plan with Ottawa to devise a neater and tighter relationship for delivery of certain goods, whereas Quebec will stay where it is.

I think that is the future for relations in Canada. With Quebec able to opt out—and other provinces can take some out if they want, but generally other provinces don't want this—it'll be a win-win situation. In fact, in that context I think Quebec can be its own nation within the Canadian state, which is really what their preferences are about in Canada.

[Translation]

The Chair: Thank you, Ms. Ambrose.

If I understood correctly, Mr. McKay, you will be sharing your seven minutes with Mr. Bell.

Hon. John McKay (Scarborough—Guildwood, Lib.): No.

[English]

Mr. Don Bell (North Vancouver, Lib.): He can speak first. I'll come back with a question next time.

[Translation]

The Chair: Well, please decide.

You have seven minutes. Then we will move on to a second round.

[English]

Hon. John McKay: Seven minutes, that's it.

[Translation]

The Chair: Mr. McKay.

[English]

Hon. John McKay: Thank you, Professors Lazar and Courchene.

My first series of questions I want to direct to Professor Courchene. I just want to work off table 1 so that I understand it. Your focus was Ontario, and I just want to follow through there.

On row 4, when you put CHT/CST cash of \$764 for Ontario to bring up the number to \$7,497, how do you factor tax points into that equation, or do you?

• (1615)

Prof. Thomas J. Courchene: What we do under the five-province standard, among other things, is equalize personal income up to the five-province standard. It turns out that the tax points that the three provinces have are respectively larger than that. In Ontario, it's about \$80 larger than that. That gets sliced off the cash it would otherwise get, and that's what's causing that.

To be fair, that was part of the original deal a way back. Well, it wasn't actually...that deal has been changed so many times. It goes back to the 1977 arrangements. Ottawa could make a case that that's the way it always was, and Ontario would say "Yes, it's the way it always was, but we already equalized it once, so this is extra equalization to take all the advantage we get from having tax points away from us". So that's where it comes from.

Hon. John McKay: I'm not entirely clear. When you say the extra \$80, should I be reading your figure? A tax point in Ontario is worth more than a tax point pretty well anywhere else.

Prof. Thomas J. Courchene: Yes, but for income tax purposes, it isn't worth any more because the equalization takes most of it away, and this takes the rest of it away.

Hon. John McKay: So for the purposes of that argument, this is, in effect, tax point neutral.

Prof. Thomas J. Courchene: Column 4 takes account of the fact that Ontario's tax points have been brought down to the national average level fully. In row 1, they keep their excess above the national average level. That's the extra \$80 that gets taxed away. Everybody is put at national average tax rates in row 1.

Hon. John McKay: Going to row 6, then, this has to do with the deal struck by the premiers in October. When the Prime Minister said to the premiers that he wanted to deal with fiscal pressures, and the overall deal was \$75 billion over 10 years—approximately \$41 billion for health care and \$33 billion for equalization—and of course, Ontario doesn't benefit by equalization, at least not on a... Presumably, in theory, Ontario could benefit by equalization over that 10-year period if in fact it slipped below the five—

Prof. Thomas J. Courchene: That's partly what I'm saying—it might.

Hon. John McKay: It might.

Did the Premier of Ontario simply make a lousy deal then, because he's going to get nothing for the next 10 years? Presumably these kinds of numbers would be available to him when he's negotiating the transfers.

Prof. Thomas J. Courchene: You'd have to ask him. It is true that in the Council of the Federation, in order to keep all the premiers together on the vertical side, the premiers agreed to have some equalization to bring it up to the part that was lost. So the \$10.9 billion was certainly part of it, and they wanted more stability. I couldn't find any reference to indexation of it over time. There are ten premiers there, so—

Hon. John McKay: The way you work it out on row 7 of your chart here, it appears that the Premier of Ontario struck a disadvantageous deal, because the equalization-receiving provinces all seemed to end up a little bit higher than Ontario. Is that a fair observation?

Prof. Thomas J. Courchene: On the assumption that Ontario will remain only \$350 million above the national average—yes. I think this is a legitimate question to ask the Premier of Ontario. I don't know from....

Hon. John McKay: It just struck me as I was looking at your numbers there.

Your underlying assumption is that over the next ten years it will basically be a stasis position. You're projecting your numbers forward over those years as if nothing will effectively happen among the provinces on a revenue basis, and things of that nature. Is that a fair assumption?

Prof. Thomas J. Courchene: Yes, for that table to be as I describe it, that's a fair assumption. I highlight the assumption. It may be problematic, but it depends on a lot of things—the price of oil. It depends on whether the income gap closes between Ontario and the rest of the country. I don't know.

There is the other part to that. Whether or not Ontario ends up as the lowest, there's a vertical implication here, in that Ontario is going to be paying 43% of that \$33 billion in equalization, and getting nothing for it.

• (1620)

Hon. John McKay: But if you go back to the original deal, presumably the premier understood that.

Prof. Thomas J. Courchene: Yes. He certainly understood that any equalization would be paid for largely from the pockets of Ontario.

Hon. John McKay: I'm sorry to be racing through these questions, because you could actually unpack each question and we would have an interesting discussion. But I only have seven minutes, and Lord knows how many minutes I've got left now.

In row 8 you capitalize it, which I think is kind of an interesting point in your paper—capitalization forces, non-capitalization. I understand the argument that a nurse in Ontario costs more money than a nurse in P.E.I., therefore the cost to the Ontario government is higher on a strict per capita basis. You used only wages, though.

[Translation]

The Chair: Mr. McKay, your time has run out. The floor is yours, Mr. Côté.

Mr. Courchene, during the second round, you will have an opportunity to answer Mr. McKay's question.

I apologize, Mr. McKay, but this subcommittee follows the rules to the letter.

Mr. Côté, the floor is yours.

Mr. Guy Côté (Portneuf—Jacques-Cartier, BQ): Thank you, Mr. Chairman, I would also like to thank Mr. Courchene for his presentation.

Mr. Lazar, you have given us a very comprehensive and interesting presentation on what constitutes the fiscal imbalance which, of course, is a structural problem in part, but which has worsened after a certain number of policies were introduced.

You mentioned, among other things, the draconian cutbacks to transfer payments in 1995. Of course, the government is now proud to remind all and sundry that it has increased transfer payments to the provinces. However, it is important to remember that the draconian cutbacks drag the country into a vicious circle insofar as the federal government is posting increasing surpluses and managing to pay down its debt, while the provinces are faced with a very delicate financial situation—Alberta being the exception—which only exacerbates the fiscal discrepancies.

In your presentations, Mr. Courchene and Mr. Lazar, you suggest that it is politically profitable for the federal government to invest in provincial and Quebec areas of jurisdiction and that it may be a good idea for some of these to be transferred to the federal government in order to stabilize the situation.

But what about political responsibility in this case, Mr. Courchene? Is there none? Following the 1995 cut backs, the various provincial governments—whatever their political stripes—had to pay the political price which came as the result of choices made by another order of government. We could also get into a discussion about constitutional reform; and we would still be here tomorrow night, I am sure of that. But isn't there any political responsibility? Isn't it a little dishonest, after having squeezed the provinces and Quebec, to now reinvest in these areas of jurisdiction and try to come across as their saviour?

In the areas of health and education, despite the fact that some provinces slightly reduced their tax burden, the bulk of the current problems are the results of a situation that the federal government created itself roughly a decade ago. What would you say to this?

[English]

Prof. Harvey Lazar: There obviously are many ways of interpreting this particular issue. Different people form different judgments on it.

I think it's a statement of fact that almost all of the increment in federal spending since the late 1990s has been in areas of provincial legislative competence under the Constitution. The question then arises as to how much legitimacy, or lack of legitimacy, one attaches to the federal spending power. There are differences there between most of the provinces and the Province of Quebec. Quebec has always resisted the legitimacy of the federal spending power more than other provinces.

What I would say is that the federal re-entry into some of these areas, or the augmentations in federal spending, would be best done within the framework of the Social Union Framework Agreement. If

the federal government pursues its initiatives, taking account of the commitments it's made under the Social Union Framework Agreement, then it would not launch new shared-cost programs without the support of a majority of the provinces, as a bare minimum. If it were going to launch new direct spending, it would give notice to the provinces of its intention to do so, and consult.

I think it's a matter of interpretation whether or not the federal government's initiatives in the post-social union framework period have in fact been consistent with its commitments there. I know that the Province of Quebec did not sign that agreement, but at least for the other provinces I think there's a debate about whether the framework agreement is being respected or not.

I guess what I'm saying to you is that the implication of the framework agreement is that the use of the federal spending power should be somewhat limited by political arrangements, or should not be unencumbered. Whether in fact the framework agreement has been respected in each particular case is a matter for case-by-case analysis.

Obviously, the biggest amount of money is in last year's September 2004 health accord. The provinces all signed onto that, I think because they needed the money. Whether the spirit of the Social Union Framework Agreement was respected in the run-up to that would be a matter for interpretation by the various governments. I didn't see a big issue there. I personally would have preferred the federal government to have made less of an effort to leverage its priorities and to have left the provinces freer to spend as they see fit within the framework of the health accord.

I think I'll stop there. My answer is perhaps only halfway to where you wanted me to go, but I think there's a balance between saying there can be no use of the federal spending power and saying it can be used unencumbered. The framework agreement is that in-between position. So I think the question then would become, have they respected the framework agreement?

• (1625)

Prof. Thomas J. Courchene: My view is roughly the same. I think Harvey and I are probably two of the few people who really like the Social Union Framework Agreement. I think it's served Quebec more than any other province, even though they're not signatories.

I'd go back to the Calgary declaration, where, led by Klein, the provinces for the first time recognized the specificity of Quebec and allowed Ottawa to make agreements with any province, including Quebec, provided the agreements could be transferred to all other provinces. The Social Union Framework Agreement was of that nature.

I think Harvey is right about the spending power. In fact, I'm not unhappy with the spending power, because I think every federal government has to have some version of the spending power. But I think the reason this accord is so much better than Chrétien's accords a couple of years ago is that his were unilateral top-down, and these follow not only the Social Union Framework Agreement, which gives the provinces enormous power on the implementation side to cater to their needs, but also in terms of Quebec, they had bilateral respect for their jurisdiction.

At the time, I really thought this was a wonderful move by Ottawa to try to get the federation in a mode where the English-speaking provinces could, on their own, ask Ottawa to do things and Quebec couldn't veto it, or wouldn't want to veto it because it got its own thing. This was, I thought, a real breakthrough. Then it all fell apart, because the Council of the Federation effectively fell apart with the Newfoundland accord, and everybody trying to get....

This is a zero-sum game all of a sudden. Saskatchewan is in there, Quebec is in there, Premier McGuinty is in there. I don't know where the Council of the Federation is anymore. Up until that point, we were doing something that we used to do in the past. We're sort of masters at the art of federalism, and every once in a while we really shine. I think that accord was one of those times.

• (1630)

[Translation]

The Chair: Thank you, Mr. Côté.

I should let you know that in 20 to 23 minutes, we will have to go and vote in the House. Ms. Wasylcia-Leis has seven minutes. We will then do a second round of two or three minutes and then be forced to adjourn our meeting as each vote lasts about fifteen minutes and there will be several votes.

Ms. Wasylcia-Leis, please.

[English]

Ms. Judy Wasylcia-Leis (Winnipeg North, NDP): *Merci, monsieur le président.*

Thank you, Professor Courchene and Professor Lazar. We really appreciate your being here, both of you. Your names have come forward a great deal over the course of our hearings, and it's probably an appropriate time for us to synthesize what we've heard and get your advice as we go forward.

For whatever time is left in this Parliament, we will try to do a report, I assume, and so the recommendations that we come up with are critical, I think, and helpful to what I see as a very serious situation on both fronts that you've identified, both with respect to vertical imbalance and horizontal.

I found, Professor Courchene, your comments about Ontario really interesting. Some of us have tended to wonder if Ontario wasn't just rushing in to get its hands on some money that the other provinces were getting through these side deals, but, in fact, you've suggested that there might be some legitimacy to the position that Ontario's putting forward, which is helpful.

I'd like to focus on solutions. With respect to equalization and horizontal imbalance, it seems to me that one of the problems we have had is that, instead of resolving the questions about the formula and striking a new deal when the provinces were ready—and I think they were ready back in the fall of 2003—we simply patched together a deal with a fixed amount of money on the table, which forced a less than satisfactory solution. Then, of course, all these side deals started, and as you've said, Professor Courchene, a free-for-all started; and now we've got to deal with Ontario in this context.

With respect to this issue, my question is, how do we now patch it up so that we save the concept of equalization? We could go forward

and try to suggest that Ontario should get a deal, but is that going to help the cause? Is that going to keep some semblance of an equalization program intact? How do we actually preserve that notion, which is so fundamental to our country and our history? That's one question.

Related to that, it seemed that, back in the fall of 2003, all provinces looked pretty close to accepting the notion of a ten-province standard with all natural resources included. In fact, I have the document here called "Strengthening the Equalization Program: Perspective of the Finance Ministers of the Provinces and Territories", dated September 2003. My question is—and that's been suggested by many on our road trip—is it too late to go back to that? I know you mentioned the cost, Professor Courchene, but is the cost any greater than the original \$10 billion or whatever and these side deals on top of it?

Those are my questions.

Prof. Thomas J. Courchene: In two weeks' time, I'll be at a conference celebrating the 40th anniversary of the Institute of Intergovernmental Relations, which Harvey has directed for the last six or seven years. He's now retiring. At that conference, I will be presenting my views on equalization, and I'd be very happy to send them to the committee at that point.

The current equalization program for 2003-04 was about \$8.5 billion. If you went to the ten-province standard, it goes up to \$13.5 billion, but it would be somewhere within the range of these new agreements. The difficulty, though, as I pointed out, is that this extra \$5 billion comes from putting Alberta's oil in there, and Ontario is paying 40% of it. It becomes a question of whether you can handle the funding that way.

My proposal is going to be something like let's go to the ten-province standard for all the non-resource revenues, which would generate about \$11.3 billion more than this year. Then let's put in 20% or 25% of all energy revenues, including Alberta's, but only 25% of it.

You don't want to put it all in, because everybody has personal income tax in the provinces, but not everybody has energy. Therefore, there's no reason why the first dollar of energy ought to go into the equalization program so that Manitoba can get some of Saskatchewan's oil revenues, right from the top, because Saskatchewan took some money to get those out. For things like energy that are province-specific, and different provinces have different energy, you could take 15% or 20% off the top for the costs of doing it.

Secondly, given that Ottawa doesn't get enough money from this, you probably shouldn't be equalizing the whole amount anyway. I went to 25%, and it would go up to about \$12 billion at that point.

Everybody's better off under that system than they currently are. Saskatchewan becomes quite a bit better off because its tax rate goes down from 90% to 50%, or something like that. I think that type of deal can be done on the equalization front.

You still haven't done much for Ontario. The only way I can see that you could help Ontario in all of this would be if Ottawa makes any more transfers to the provinces, let it be tax point transfers rather than cash transfers, and put the same restrictions on it. I think that Ontario would be glad to accept that. Then it will be equalized, but Ontario will get a little more than the average province, or something like that.

The alternative is to have something that I proposed 25 years ago. Bob Rae was then a finance critic for the NDP federally, He thought it was a great idea, but it's a tough sell. I'm a little embarrassed to say this in front of Ms. Ambrose, but it would have every province kick in about 15% or 20% of their equalization revenues, and then everybody would pull out its population share.

This would be a united solution in a sense that the parts of Canada that have the money and the energy would put it into a pool. This would be all energy, renewable and non-renewable. It would cost something, and it's probably politically unacceptable. But in that case, Ottawa would save money because this tier is being financed by the provinces. Ottawa could then give a tax transfer to the provinces to compensate for the fact that they're saving money.

I'm going to try to see what the numbers are. I'm probably talking about a half a billion dollars here. If that doesn't happen, then we may have to focus on alternative ways to minimize it. One alternative is to completely take energy out of the formula. That gives you more equalization than you actually have now, but obviously it doesn't give you as much as the ten-province standard.

• (1635)

[Translation]

The Chair: Excuse me, Mr. Courchene, there is no ill will meant on my part, but we also must abide by the time allocation rules.

We have about 11 minutes left for a second round of questions and answers. So I would suggest two minutes total for both questions and answers. At that point, unfortunately we will have to bid farewell to our witnesses. We have no other option because of the vote.

Ms. Ambrose, you have two minutes for both questions and answers.

[English]

Ms. Rona Ambrose: Thank you.

I'll make my question very quick. It's a specific question about the October equalization reformulation—if you want to call it that—but it's specifically on the issue of the fixed floor being attached to the Ontario economy.

We heard from economists throughout our travels on this committee that the fiscal framework for equalization is detrimental to the Ontario economy. They were telling us it will hurt Ontario if Ontario ends up with a low-performing economy; Ontario will end up having to pay out on equalization when it actually might need to be receiving it. Can you talk about the fixed floor and the impact for Ontario?

• (1640)

Prof. Thomas J. Courchene: A fixed floor changes the whole nature of Canada's equalization program because it used to be that the formula determined the total as well as the allocation. If it's only

going to be determining the allocation, then we have a lot more options open to us because we're not touching the consolidated revenue fund. We could go to the Australian approach and have a select committee out there at arm's length make the allocation.

But as I've tried to point out here, one of the problems with this predetermined level is that at some point Ontario may well qualify, in which case it's big enough that it will take all the equalization. That's where it'll stop, because Ontario will get every dollar per capita; there's \$12 million going to Ontario right away. I think the assumption that only the currently existing have-not provinces will get equalization may not hold up unless the Ontario economy is not killed by the exchange rate the way I think it's going to be.

Ms. Rona Ambrose: Thank you.

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

Monsieur Bell, for two minutes.

Mr. Don Bell: Thank you.

I have a quick question, gentlemen, on your comments. I'm getting into the issue of the role of municipalities and the shifting of the federal government into areas you've described as traditional and constitutional provincial responsibilities.

Would you not say there's a justification to some degree for the federal move into these areas in terms of issues that are affecting the big cities in particular, such as the impact of immigration, which is federal policy, and also environmental concerns, which really cross over political boundaries? Some of the money that's come under the municipal green funds and the money that's come under the gas tax really deal with these broader areas.

Prof. Harvey Lazar: Possibly Professor Courchene and I have different views on this. My own view is that if the federal government proceeds with its intention to transfer gas tax to the municipalities, it will confuse the accountability of who is responsible for municipal finance and municipal government. Who's to say whether five or ten years from now, if the municipalities are in dire straits and go to the provinces to say they don't have an appropriate set of fiscal arrangements, the provinces will then say, "Go to Ottawa; Ottawa is your paymaster now"?

I think it's one thing for the federal government to transfer money to the municipalities for specific purposes if there's an agreement with the provinces, but it's another for the federal government to do it on a general basis. If the large municipalities in particular are short of money, it's a good short-term fix, but it raises accountability questions in the medium and longer terms. I for one regret the federal government has gone in that particular direction.

I know you feel differently, Tom.

Prof. Thomas J. Courchene: No, I agree with that to a large extent. My perspective is that Canadians are only going to do as well as our global city regions do vis-à-vis American global city regions, and by "global city regions" I have the big three in mind, but also the leads in each of the regions, like Halifax. We have to make sure those cities thrive, and I would suggest that if Ottawa wants to help the municipalities, it has to let the cities retain more revenues that are generated within their jurisdictions. More has to stay there.

So if Ottawa wants to share taxes, let it give a slice of the personal income tax to the city so the bigger cities get more of it per capita, and I'm sure the provinces won't object.

The Chair: Thank you very much.

Mr. Don Bell: Since we're losing 45 minutes because of this vote, can we invite these witnesses back to another meeting?

[*Translation*]

The Chair: Unfortunately, Mr. Bell, we have to go and vote, and 20 minutes later, we will have to vote again. This would be a waste of our witnesses' time.

[*English*]

Mr. Don Bell: I don't mean invite them back tonight. I'm saying invite them to another meeting, because we've lost 45 minutes that we had scheduled with them, and these are two very knowledgeable witnesses and I'd like to have the opportunity for them—

[*Translation*]

The Chair: I understand that, Mr. Bell, but we also need to be reasonable. If we ask our witnesses to stay another half an hour and we end up being held back at the House because of a vote...

[*English*]

Mr. Don Bell: No, no, another day.

[*Translation*]

The Chair: I completely agree that they should come back another day. I was going to suggest, before handing the floor over to Ms. Wasylycia-Leis for a last two-minute period, that we invite them to come back before our subcommittee.

I especially wanted to ask you, Mr. Courchene, if you could forward us a copy of your new study on equalization which could be helpful to us in our deliberations.

Ms. Wasylycia-Leis, you have the floor for two minutes. We will conclude our meeting after that.

• (1645)

[*English*]

Ms. Judy Wasylycia-Leis: Thank you. Merci. Let me try to do this in 30 seconds and touch on vertical imbalance.

It seems to me that we have a problem on this front, and I agree that there is one. Going back over the last decade, there were cuts in transfers for health and education, the loss of the Canada assistance plan, changes to the EI program, which dumped more people onto provincial welfare roles, and the implementation of boutique projects that in fact required cost-sharing by provinces and didn't deal with the fundamental issues they were dealing with in terms of increasing demand on the health and education side. Then on top of it all, the government, over the last decade, has allowed \$80 billion in surplus to just go against the debt, as opposed to dealing with priorities.

Here's my question to you. Can vertical imbalance not be solved by having a federal government start to directly invest its surplus in programs that meet needs like housing and education and so on? Wouldn't that help Ontario a great deal, for example?

And we know from our independent forecasters that we're going to average at least \$8 billion in surpluses, above prudence and

contingency funds, for the next two years. So wouldn't that be a way to deal with vertical fiscal imbalance?

Prof. Harvey Lazar: It would be a way to do so. There is more than one way to do so.

The only caution I would give on everything you have said is that we've been living through a period in which the rate of economic growth has been higher than the interest rates. It's a technical point, but when that happens, things can look very rosy. If we move into a period where the opposite occurs, then all that federal debt that is sitting there is going to look like a huge burden on the social programs of the country.

In the post-war period we had a situation, as we do today, when interest rates were lower than economic growth. But that terrible period we had for 20 or 25 years was a period when the opposite occurred. Paying down the debt may not be a priority, but if the debt is not paid down, those who are worried about social programs may come to rue the day it wasn't paid down, because if it ever reverses itself—and interest rates are starting to creep up south of the border—the effect will be truly pernicious.

But yes, it's a way to do so, for sure.

Prof. Thomas J. Courchene: I have two comments.

Canada has been called the “maple leaf miracle.” Canada has attempted successfully to put its fiscal house in order, but there are some provincial implications of this. The forecast for Ottawa in the finance minister's budget is that it's going to get to a 25% debt-to-GDP ratio at the federal level in less than a decade. At that point it will be lower than the debt rate in the provinces, unless the provinces change somehow—some provinces; Alberta is obviously cleared. There's no federation in the system that has that sort of thing. Macro stuff should be federal. The federal government, rather than the provinces, should take the brunt of the business cycle.

Secondly, much of the budget surplus comes up between the end of the fiscal year, or budget time, and the closing of the books in November.

Ms. Judy Wasylycia-Leis: The period we're in right now.

Prof. Thomas J. Courchene: Right.

What Ottawa does quite often is say, on budget day, wait, we've got a big surplus; let's set up a foundation for the millennium scholarships. So they take \$4 billion out and put it away. Well, why can't they do the same thing for a fiscal imbalance and say, given the 3%, if there's anything above 3% in the budget between now and the end of November when the books close, let it go to provincial issues and let it be for housing, but let the provinces decide how to use it, as long as it's in housing. You can put it into general areas, but I don't think Ottawa should dictate how it's used.

Otherwise, what's happening is that in addition to the provincial governments being under fiscal stress, Ottawa is making it worse by actually paying down its own debt on them.

So you could do that. That's one alternative. But I would not use federal standards for that. I would let the provinces choose how to spend it. I think I'd agree with Harvey on that.

• (1650)

[*Translation*]

The Chair: Thank you.

[*English*]

Prof. Harvey Lazar: Mr. Chairman, if you're going to invite us back, we'd like to invite you to Kingston.

[*Translation*]

The Chair: Yes, that is a good idea.

Thank you, Ms. Wasylycia-Leis.

I am sorry to rush you. All our thanks, professors Courchene and Lazar, for your tremendous contribution to the work of our subcommittee. Once again, I would like to apologize for any inconvenience resulting from a rather strange political environment.

This meeting is adjourned.

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

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

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

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

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