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• (1630)

[English]

The Chair (Mr. Peter Fonseca (Mississauga East—Cooksville, Lib.)): Welcome to meeting number 72 of the House of Commons Standing Committee on Finance. Pursuant to Standing Order 108(2) and the motion adopted by the committee on Monday, June 20, 2022, the committee is meeting to discuss the current state of fiscal federalism in Canada.

Today's meeting is taking place in a hybrid format, pursuant to the House order of June 23, 2022. Members are attending in person in the room and remotely by using the Zoom application.

I'd like to make a few comments for the benefit of witnesses and members.

Please wait until I recognize you by name before speaking. For those participating by video conference, click on the microphone icon to activate your mike and please mute yourself when you are not speaking.

For interpretation for those on Zoom, you have the choice at the bottom of your screen of either THE floor, English or French. For those in the room, you can use the earpiece and select the desired channel.

I remind you that all comments should be addressed through the chair. For members in the room, if you wish to speak, please raise your hand. For members on Zoom, please use the "raise hand" function. The clerk and I will manage the speaking order as best we can. We appreciate your patience and understanding in this regard.

I'd now like to welcome our witnesses. I wish to inform all members that all witnesses have been tested for today's meeting and have passed the test.

With us today as an individual, we have Daniel Béland, the director of the McGill Institute for the Study of Canada and the James McGill Professor in the department of political science at McGill University. Welcome.

As an individual, we have Lee Soderstrom, a retired professor from McGill University. Welcome, Lee Soderstrom.

From the Office of the Parliamentary Budget Officer, we have the Parliamentary Budget Officer Yves Giroux. With him is Robert Behrend, an adviser-analyst. Welcome.

Witnesses, you now have up to five minutes to make your opening remarks.

We're going to start in the order I introduced you, beginning with Daniel Béland, please.

Mr. Daniel Béland (Director, McGill Institute for the Study of Canada and James McGill Professor, Department of Political Science, McGill University, As an Individual): Thank you very much.

[Translation]

Thank you for having invited me to come and testify today on the state of fiscal federalism in Canada.

Fiscal federalism is a fundamental aspect of our public policy and our federal system, which is indisputably one of the most decentralized on the planet. The way major federal transfers work, and their level of generosity, are nevertheless sources of considerable controversy across the country.

That's particularly true of the Canada Health Transfer, for which the provinces are demanding immediate increases, and the equalization program, which is being challenged politically, particularly by certain provincial governments that are not currently receiving equalization payments. If the provinces agree on the need to significantly increase the Canada Health Transfer, the disparities will further divide provincial premiers.

In spite of its sometimes controversial nature, equalization is needed in any country that has major economic disparities. That's why subsection 36(2) of the Constitution Act, 1982, proclaims the following:

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

This imperative still applies today and equalization is therefore good. More generally, beyond equalization, the Government of Canada's fiscal transfers to the provinces and territories remain one of the pillars of our federal system, which could not work without them. This fiscal role of the Canadian government in our federal system is part of what makes the decentralization of many public services throughout the country possible. That is certainly the case for the equalization program. Without it, we might have a federation that is more centralized than it is today, and I believe it is important to pointing this out.

[English]

Moving forward, we must pay constant attention to the architecture of fiscal federalism and the need to adapt federal transfers to changing economic and fiscal circumstances. Fiscal federalism should be updated on a regular basis, even if the proposed changes are potentially controversial. Without constant adaptation, fiscal federalism is likely to fall victim to what a Yale political scientist, Jacob Hacker, calls “policy drift”, a logic according to which the failure to reform public policies might render them less effective over time.

To avoid policy drift in fiscal federalism, we should look for new ideas about how to improve the system. For instance, in a working paper published a year ago, University of Calgary economist Trevor Tombe and I outlined in “Three Policy Pathways for Federal Health-Care Funding in Canada” that there are alternatives to the status quo, namely demographic adjustments to the Canada health transfer and the possible advent of a new form of fiscal governance in Canada.

I think it's important to really think about how we could reform the system. Incrementalism is not necessarily a bad thing; it's a prudent thing, but sometimes we need to think outside the box and discuss broad options beyond the status quo.

Regarding equalization, the Government of Canada should create a new expert panel similar to the 2005-06 expert panel on equalization and territorial formula financing. Chaired by Alberta-based economist Al O'Brien, it submitted its report back in May 2006. These recommendations were implemented the following year.

Of course, a lot has changed since the equalization program was adopted in 2007, and there were also other changes to equalization in 2009. I think this is in part because we have changing circumstances, for example, the fact that the fiscal capacity of provinces, the gap among the provinces, has declined, especially since 2014. The landscape has evolved, and we need to re-assess the equalization formula and, frankly, re-assess fiscal federalism more generally.

In the longer term, the Government of Canada should explore the possibility of creating a permanent expert body that could provide regular advice to the federal government in the field of fiscal federalism. Such a permanent body already exists in other federal countries like Australia with its Commonwealth Grants Commission, which has existed since 1933, and could help lower the political temperature over equalization and other federal transfers, even if the allocation of fiscal resources will always remain contentious. There's nothing more political than money and the allocation of money in the federal system.

Regardless of who will be tasked with advising the Government of Canada over changes necessary to avoid policy drift and adapt our fiscal federalism system, we must look at the big picture beyond just individual transfers. For example, the interaction among equalization and the Canada social transfer and the Canada health transfer is really relevant. If we want to introduce changes in one transfer, we have to take into account what's happening in the two main transfers.

Thinking about reforming fiscal federalism—

• (1635)

The Chair: Professor Béland, could start to wrap up, please? We are well over time.

Mr. Daniel Béland: I'm wrapping up. This is the last paragraph.

The Chair: Thank you.

[Translation]

Mr. Daniel Béland: Thank you.

[English]

It should also entail a broader discussion about fiscal capacity, the state of our economy, population aging, regional disparities and other key factors that affect the availability of fiscal resources and the varying capacity of provinces and territories.

I would like to end by telling you about the forthcoming paper of the fiscal federalism policy network that is titled “The Road Ahead: Rethinking Fiscal Federalism for the 21st Century”, which looks at the big picture of our three main transfers and other aspects of fiscal federalism in Canada. The report will appear next month with the support of the IRPP and the Canada West Foundation. As soon as it appears, I will send you a copy of that report.

[Translation]

Thank you very much for your attention.

The Chair: Thank you, Professor Béland.

[English]

Now we'll hear from Professor Soderstrom for five minutes, please.

Mr. Lee Soderstrom (Professor (retired), McGill University, As an Individual): I'm going to talk a little bit about an aspect of fiscal federalism that is marked by much controversy these days, which is [*Inaudible—Editor*] health care.

Numerous provincial leaders in recent years have claimed that Ottawa has greatly reduced its cost-sharing for provincial health care. They claim that Ottawa currently pays only 21% of provincial costs, so they demand that federal transfers increase to 35%. As I will explain shortly, the provinces are wrong. Federal cost-sharing has not been reduced.

The extent of cost-sharing now is the same as it was in the mid-1970s. It's about 35% of provincial spending. The provinces err because they only consider the amount of cash that Ottawa gives them each year. They ignore the substantial cash value of the tax points Ottawa gave them in 1977.

I am familiar with change in federal cost-sharing. I was a health economist at McGill University for 40 years, beginning in 1968. When the changes in cost-sharing arrangements were negotiated in 1976, I was writing my book, *The Canadian Health System*, and following the negotiations very closely.

Additional funding for health care may well be justified now, but federal-provincial negotiations to decide amounts and modalities should be based on careful analysis, unhampered by erroneous provincial claims.

New spending will probably require additional funding from both levels of government. The provinces have not acknowledged this. They want Ottawa to foot the bill.

To understand why the provincial claims are wrong, one must be familiar with the changes in cost-sharing arrangements made in 1977. Prior to that year, federal cost-sharing was only for hospital and physician services. In 1976, for example, Ottawa paid 46% of provincial costs for these two services. Its payments were equivalent to 36% of total provincial spending.

Moreover, before 1977, federal transfers were composed entirely of cash. In 1977, Ottawa and the provinces agreed to reduce these cash payments and, by way of compensation, to transfer some federal tax points to the provinces. That is, Ottawa reduced its income tax rates, allowing the provinces to raise theirs. Thus, since 1977, federal cost-sharing, if properly measured, has had two parts, which are the cash payments and the increased provincial tax revenue from the transferred tax points. The provinces err because they consider only the first part—the cash payments.

Calculations I made several years ago show they are making a major mistake because the value of these tax points has been substantial. In 2005, 2006 and 2007, cash payments alone were 22% of provincial health spending, but when the value of the tax points is included, total cost-sharing was 34% of provincial spending. That's essentially the same as in 1976.

More recently, David Naylor, an important Canadian health care researcher and former president of the University of Toronto—and two co-authors—found that the same thing prevailed in 2019. The total federal transfers that year were 35% of total provincial spending on health care. Again, that is essentially the same as in 1976.

Thus, contrary to the provincial claims, Ottawa has not reduced its cost-sharing for health care. The provinces should stop making those claims. Although additional health care funding may well be justified, the necessary federal-provincial negotiations should be based on careful analysis, not hampered by erroneous provincial claims.

• (1640)

The Chair: Have you concluded, Professor Soderstrom?

Mr. Lee Soderstrom: Yes.

The Chair: Thank you very much.

We now go to the Office of the Parliamentary Budget Officer.

Mr. Giroux, please, for five minutes.

[Translation]

Mr. Yves Giroux (Parliamentary Budget Officer, Office of the Parliamentary Budget Officer): Mr. Chair and committee members, thank you for having invited us to appear before you today. We are pleased to be here to discuss our analysis related to your study on the current state of fiscal federalism in Canada. I'm here today with Mr. Robert Behrend, Advisor-Analyst in my office.

The act gives the parliamentary budget officer a mandate to provide impartial, independent analysis to help parliamentarians fulfil their constitutional role, which consists of holding the government accountable. In accordance with this mandate, my office has published reports on major federal transfers and the long-term sustainability of the different levels of government.

In September 2020, we published a report entitled "Federal Support through Major Transfers to Provincial and Territorial Governments". This report examines federal support through major transfers to provincial and territorial governments from 2008-09 to 2018-19.

• (1645)

[English]

More recently, in July 2022, we published our annual "Fiscal Sustainability Report", which provides an assessment of the sustainability of government finances over the long term for the federal government, subnational governments and public pension plans, including an analysis of our long-term projections for major federal transfers to other levels of government.

Additionally, our "Economic and Fiscal Outlook" in October 2022 presents our current projections for the Canada health transfer, the Canada social transfer and the equalization programs.

Robert and I will be pleased to respond to any questions you may have regarding our analysis of the major federal transfer programs or other PBO work.

Thank you.

[Translation]

The Chair: Thank you, Mr. Giroux.

[English]

We are now, members and witnesses, moving to questions.

In our first round, each party will have up to six minutes to ask questions.

Starting with the Conservatives, I have MP Morantz up for the first six minutes, please.

Mr. Marty Morantz (Charleswood—St. James—Assiniboia—Headingley, CPC): Thank you, Mr. Chair. I want to thank all of our witnesses for being here today for this extremely important study.

I just got back on the finance committee so I wasn't involved in the earlier portions of the study and I'm playing a little bit of catch-up.

I have some fairly basic questions. My first question really has to do with the equalization transfer and the principle around it. I think I'll start with the Parliamentary Budget Officer on this one, and if anyone else wants to weigh in, they can.

The basic principle is something like this, that the equalization transfer is to allow for similar standards of social services across all provinces and territories at similar levels of taxation.

Is that more or less correct?

Mr. Yves Giroux: Yes, that's accurate.

Mr. Marty Morantz: How has that worked out? Is it happening? Are there similar levels of services for various social enterprises across the country? Do we have any studies or data that could substantiate that the principle of equalization has actually taken effect?

Mr. Yves Giroux: There have been some studies, notably, regarding the divergence of per capita GDP across provinces over time. We did that in our reports—I think the 2020 report—and looked at the convergence of per capita GDP across provinces. In that report we found that over the last 10 to 12 years, there seems to have been a trend towards convergence of per capita GDP across provinces.

GDP is one measure through which we can measure whether economic disparities persist or are getting smaller over time.

Mr. Marty Morantz: I'm more after something a little bit different. Years ago, my younger son was diagnosed with autism and it was quite severe. I was involved in lobbying the provincial government for better autism therapy services and we were successful: Manitoba ended up having a gold standard in autism therapy. It was called the ABA, the applied behaviour analysis program in Manitoba.

What I found out through that autism journey was that some provinces had no such services. We have friends in Nova Scotia who have children with autism and they ended up moving to Manitoba because of the program we have there.

It's that kind of detail that I'm wondering about. It seems to me that if millions of dollars are going across the country to different jurisdictions, citizens of Canada should deserve similar services at a more granular level—not looking at the metrics you necessarily talked about but actual programs. I'm just wondering if anyone's had a look at that or if it's something that needs to be explored.

• (1650)

Mr. Yves Giroux: To my knowledge, no. However, what the legislation says on equalization, notably, is that it provides funding to provinces to allow them to provide comparable services—not identical or perfectly identical services—across jurisdictions at comparable levels of taxation.

It means that provinces have the freedom to adjust their basket of services and to adjust their taxation accordingly.

Mr. Marty Morantz: With regard to the sustainability report, how sustainable are...?

Your report was back in the spring, but given the fall economic statement, the \$52 billion in spending and interest rates having gone up—I think, since the time you did your report, from a 0.25%

overnight rate to now 4.25, and 500 basis points just today—does your perspective of the sustainability of government finances over the long term still hold, or are you re-evaluating that opinion?

Mr. Yves Giroux: As you pointed out, there are various events that take place in between our reports. That's why we undertake updating it every year. It's to take into consideration the various factors that come into play, such as an increase in interest rates and additional, potentially permanent government spending.

It would be difficult for me to assess how recent changes in policy and economic conditions have positively or negatively affected the overall fiscal sustainability without doing a full analysis.

Mr. Marty Morantz: We will wait for that update then.

In the report, you note that slower economic growth will put upward pressure on government programs such as health care, OAS and pension benefits, and that fiscal policy changes might be necessary to avoid unsustainable government debt. Your report said that the government could increase spending or cut taxes by \$45 billion at the time.

Based on those changes.... I realize you have answered the question already, but I'm still curious about it. The goal of the Bank of Canada in increasing these interest rates is essentially to slow the rate of economic growth in order to bring demand down. If they are successful, it should mean that there's going to be upward pressure on these programs.

Do you agree with that perspective?

Mr. Yves Giroux: The goal of the Bank of Canada in its recent monetary policy actions is to slow economic growth in the short term to ensure that inflation does not become a burden in the medium and longer term.

While the recent rate increases by the Bank will slow economic growth in the short term, the goal, ultimately, is to ensure that the economy can operate better without the burden of inflation weighing on economic growth.

Mr. Marty Morantz: Thank you.

I have more questions. Maybe we will get to them—

The Chair: Thank you, MP Morantz.

Now we'll go to the Liberals and MP MacDonald, please, for six minutes.

Mr. Heath MacDonald (Malpeque, Lib.): Thank you, Chair.

Thank you to the witnesses for being here today.

I want to go back to Mr. Soderstrom. You mentioned some very interesting points. You have, obviously, been studying this for a lot longer than I have.

I wonder what effect of equalization should be contributed to regionalization. When you look at places like Alberta, GDP per capita is 185% of that of where I come from on Prince Edward Island, and the personal income in Alberta is about 160% more than it is on Prince Edward Island.

You talked about erroneous provincial claims and cost sharing with the provinces. You mentioned tax points.

Could you expand on that comment relative to tax points and how effective that is on the equalization formula?

• (1655)

The Chair: Professor Soderstrom, you're on mute.

There you go.

Mr. Lee Soderstrom: Unfortunately, I can't answer your question because I haven't looked at the implication of cost-sharing for the equalization payments.

Mr. Heath MacDonald: What was that? I didn't hear it.

The Chair: Can you repeat that, Professor Soderstrom? You may want to turn off your video so we can capture your sound better, because it's a little choppy.

Mr. Lee Soderstrom: Okay.

Again, I can't answer your question because I have not looked at the implications of cost-sharing arrangements for the fiscal transfer or the sharing payments.

Mr. Heath MacDonald: Mr. Soderstrom, you mentioned "tax points". Could you expand on what you're talking about relative to tax points in the equalization formula?

Mr. Lee Soderstrom: Again, I don't understand how that links into the equalization formula. I just haven't looked at that.

Mr. Heath MacDonald: Okay. Thank you.

Mr. Lee Soderstrom: Do you want background on [*Inaudible—Editor*] issue generally?

Mr. Heath MacDonald: Yes.

Mr. Lee Soderstrom: In 1977, for the feds to be able to justify cutting back on their cash payments, the basic idea was to find a different source of financing for the provinces. And the provinces were quite keen on the idea that they would get a transfer of taxing powers from the federal government.

What this involved was a reduction by the federal government of the personal income taxes and a reduction in the corporate income tax. That allowed the provinces then to increase their taxation, generating additional revenue for health care without putting an added burden on the typical taxpayer when they take into account both the federal and the provincial taxes.

The Chair: You have a minute and a half.

Mr. Heath MacDonald: Okay.

Thank you, Mr. Soderstrom.

Mr. Béland, I'm going to go to you. You mentioned in your preamble that you had written about Australia's Commonwealth Grants Commission as a potential model we could use for equaliza-

tion payments. Can you tell us little bit about this model and what Canada could learn from it?

Mr. Daniel Béland: Yes. Thank you very much for your question.

In Australia they have what they call the Commonwealth Grants Commission, which has existed since 1933. Of course, its mission has changed and been updated over the years. You have a body with a chairperson and at least two other members who are looking at fiscal federalism especially in the way, in Australia, they share the GST. They have a tax-sharing system there which is quite interesting, and I think Canada should also consider that, by the way. Basically their GST is shared with the territories and the six states in Australia.

The members of this Commonwealth Grants Commission look at public finance in the provinces and territories and at changing economic circumstances. They issue a report to the Australian Parliament and they make recommendations about equalization payments and fiscal transfers. In the end, of course, they don't make any final decisions. Parliament has to vote to reject or adopt these recommendations.

That system, I think, has an advantage over equalization of reducing or lowering the political temperature, because it's an arm's-length commission. It's politically independent. It's not civil servants working for their political masters within the government who do this. People at arm's length from the government make these recommendations.

With André Lecours and others, I have written about how this model could be useful for Canada. We could look into it, but not copy it and do exactly the same thing. I think a permanent body could be helpful in terms of equalization, but perhaps also we could look at even the CHT and the CST and how they interact.

The way equalization works in Canada right now—and this has been the case since the program was created in 1957—is that it is based only on the calculation of the fiscal capacity of provinces. What they do in Australia and in some other federal countries is that they also look at expenditure needs related to population aging, the indigenous population that they might have in the territories, the number of immigrants, and so forth. They take into account expenditure needs, not just fiscal capacity. The equalization system in Australia is even more complex than Canada's.

Certainly, I think we should consider changing the governance of equalization, because it's such a political hot potato, and having an arm's-length body might be helpful. It will always remain contentious because, again, it's about money, and there is political conflict among different parts of the country over this, but—

• (1700)

[*Translation*]

The Chair: Thank you, Professor Béland.

[*English*]

Thank you, MP MacDonald.

We have MP Ste-Marie, please, for six minutes.

[*Translation*]

Mr. Gabriel Ste-Marie (Joliette, BQ): Thank you, Mr. Chair.

Thank you to the witnesses for being here and for their very interesting testimony.

My questions will be for Mr. Giroux or M. Behrend.

Before asking them, I'd like to remind everyone of the purpose of this study on fiscal federalism, which is an initiative of our NDP colleague Mr. Daniel Blaikie. He wanted to move forward on suggestions made by Seth Klein, which we received at our initial meeting in the fall, and whose basic idea was to incorporate green transitional measures into fiscal federalism.

For today's meeting, I would like to return to the underpinnings of the fiscal federalism concept.

Mr. Giroux or M. Behrend, I may be catching you off guard, but can you give us an explanation of what you believe fiscal federalism to be?

Mr. Yves Giroux: I'm not an expert in constitutionalism, the separation of powers, or federal or alternative structures, but I can explain it in my own words, Fiscal federalism is an organization of states that join together and that share some of their resources in order to redistribute them to provide an equitable sharing of resources within a federation.

Mr. Gabriel Ste-Marie: Okay. Thank you.

My understanding of it is that under the Constitution, which identified separate areas of jurisdiction, each order of government has its roles to play and ideally, revenue should match expenditures in each of these fields of jurisdiction.

If I've understood it correctly, in fiscal federalism, there can be programs. From the outset of this meeting, we've been talking about three federal transfer programs: the Canada health transfer, the Canada social transfer and the equalization program. This enables other governments, below the federal level, so to speak, to provide their services, and possibly do some resource redistribution within the federation.

I'd like to hear your comments on that.

Mr. Yves Giroux: That indeed is the nature of the arrangements between the federal, provincial and territorial governments of Canada. Although provincial and territorial governments have virtually the same tax base as the federal government, the value varies from one province or territory to another owing to fiscal capacity disparities.

Mr. Gabriel Ste-Marie: Thank you. That's very clear.

You've prepared quite a few reports on fiscal sustainability. The most recent is the 2022 report, which was published at the end of July.

Could you remind us of the main thrusts of this report and the conclusions you drew?

• (1705)

Mr. Yves Giroux: Of course.

I'll exclude the pension plans, because they are sustainable over the long term. That's the conclusion we came to, just as we had expected.

The major conclusions from the fiscal sustainability report were that the overall government sector was sustainable over the long term. By that we mean a period of 75 years, based on the current status of the policies. In other words, if we were to go into autopilot with the current policies for a 75-year period, there would not be a perpetual increase in debt.

However, the situation is better at the federal level than in the provinces as a whole. The federal situation, when we assessed it in July, was sustainable over the long term. For the provinces and territories, taken together, the situation is not. The explanation for this discrepancy is that most federal expenditures are limited by GDP growth. What we're talking about here are the transfers to the provincial governments and to individuals. In contrast, the principal provincial expenditures are rising, mainly because of the aging population. Elderly or very old people require a lot more health care than those under 65 or under 50. That's what explains the disparity.

Mr. Gabriel Ste-Marie: Thank you very much for your answer.

This is a finding that seems to appear in most of your fiscal sustainability reports. In each of your reports, in fact, your very long-term projections indicate that the federal government will be all right and able to have surpluses, or even reduce its debt, whereas the provinces could, over the long term, be facing accumulated deficits that would increase debt. However, the situation described in the last report, even though it shows a better outlook for the federal government than for the provinces, is not as bad for the provinces as it was in the previous reports.

Do you know why that would be?

Mr. Yves Giroux: This can be largely explained by a budgetary situation that has improved in the provinces and territories. The situation at the outset is an important factor in determining the trajectory of the next 75 years and the point of arrival. We have also revised some of the economic and demographic data.

That's what explains the relative improvement in the overall state of affairs for the provinces.

Mr. Gabriel Ste-Marie: The fact remains, however, that the situation is better for the federal government.

Thank you for this information.

Mr. Chair, I believe I have approximately a minute left, do I not?

[*English*]

The Chair: We're at six minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Okay. In that case, I...

[*English*]

The Chair: But there's a little leeway, yes.

[Translation]

Mr. Gabriel Ste-Marie: I would indeed need a minute to ask my other questions, and an additional minute to hear the answers.

[English]

The Chair: You have time for a quick question and a quick response, yes.

[Translation]

Mr. Gabriel Ste-Marie: All right. Thank you.

When we ask people from the government about health transfers, they tell us that they are going to increase them by 10% this year anyway because the transfer formula takes inflation into account.

Do you have any comments to make about this 10% increase? Have you determined whether these transfers, with inflation factored in, will be more generous than they've been for previous years?

Mr. Yves Giroux: Yes. The increase in the transfers is determined by the moving average of GDP growth over the previous three years. Based on our assessment, that rate will increase to 9.8%. That's to take nominal GDP growth into consideration. It takes inflation into consideration, as well as economic growth.

Mr. Gabriel Ste-Marie: All right. I'll try to get back to this later.

Thank you.

The Chair: Thank you Mr. Ste-Marie.

[English]

Now we'll go to the NDP.

MP Blaney, welcome to the committee. You have six minutes for questions.

Ms. Rachel Blaney (North Island—Powell River, NDP): Thank you, Chair.

I want to welcome all of the witnesses. Thank you for your testimony today.

My first question is going to be directed to Mr. Béland.

I am subbing, in fact, for my colleague Daniel Blaikie, as was mentioned earlier. He recently read the book you co-authored, *Fiscal Federalism and Equalization Policy in Canada*, which he thought gave a nice overview of fiscal federalism as it exists in Canada. He also recently read *A Good War* by Seth Klein, whom the committee has already heard from.

One thing that Seth Klein talks about in his book is the idea of a climate transfer under the equalization payment model as a tool that government could explore using to combat climate change. As an expert on fiscal federalism, I'm wondering if you would be able to talk to us today about whether that is something you think governments could look at. What kind of consideration should governments take into account in discussions like these? Do you think there are any pitfalls around the idea of a climate transfer?

Thank you.

• (1710)

Mr. Daniel Béland: Thank you very much.

This proposal is not something I've studied directly. However, I have to say that it could be part of the mandate of the expert panel on equalization that I hope will be created soon, because we need to look into equalization, as I said, for a number of reasons. I think climate change is a factor when you deal with equalization in relation to natural resources, especially non-renewable resources.

At the same time, this could be quite contentious politically, so I think it might be a good idea to have this discussion done through an arm's-length expert body. Again, the devil is in the details. You can have this broad idea that sounds good on paper, but it's the way it is implemented.

I think we should discuss it, but at the same time we should understand that this is likely to be quite contentious, because such a proposal may advance some provinces over others, and that will probably create more tension over equalization, rather than less.

Ms. Rachel Blaney: That's fair enough.

I'm going to move to a different subject, but I am coming back to you, Mr. Béland.

You alluded in your testimony to some ways you thought the Canada health transfer could be modernized. In my riding of North Island—Powell River, I represent a pretty large riding with a lot of rural communities, and we've hit a really significant crisis where emergency rooms are being shut down. For example, in one month, the emergency room was shut every night for 28 days out of the month which, you can imagine, is pretty concerning when you're having any kind of health issue.

I wonder if you could talk about the thoughts you have around modernization of the CHT. Would it help to address some of these current concerns?

How could we look at it to make sure that those more rural and remote communities get some of the supports that they need to go through these significant transition times?

Mr. Daniel Béland: One thing that could be done to address this issue at a broad level is building some demographic factors into the calculation of the Canada health transfer. This is something we discussed with Trevor Tombe in the working paper published by the school of public policy at the University of Calgary, which is available online.

I think this could address some of the challenges that you see in some parts of the country, where the population is aging rapidly. That's a source of added cost. There are different ways you could...it could be an add-on to the CHT to address demographic and socio-economic factors beyond what the CHT already does on a per capita basis. I think that's something we could explore.

Beyond that, I think we also have to imagine what could exist beyond the CHT. The CHT was only created in 2003, but we talk about it like it has always been there. Health funding in Canada has changed a lot since the 1970s. There was a huge change in 1977, and other changes later in 1995 and so forth.

Moving forward, we have to think about whether the CHT is the only tool available, or whether we can think about tax points, which I alluded to earlier. There is also the possibility of having revenue sharing in terms of having a federal tax that will be redistributed directly to the provinces, like is done with the GST in Australia.

These are things that we explore in our paper. I very much hope that you can look at it and provide feedback to us, because the ideas are there.

We need people to talk about this and not just get stuck on the CHT and how much it should increase every year and so forth, because there's much more to help our funding than just that.

Ms. Rachel Blaney: I've only got a few seconds left, but the last question I'm going to ask is for you to follow up on what you were talking about in terms of demographic information. We have been noting for well over 20 or 30 years that we're going to have a huge increase in the aging population, unlike anything Canada has ever seen.

When we look at how the CHT transfers work, in terms of modernization, how would we start to plan ahead so that we're not reacting as we are now at a crisis point?

• (1715)

Mr. Daniel Béland: As we propose with Trevor Tombe in our paper, we can revise the CHT so it will actually compensate the provinces for the added cost of demographic aging. I think the federal government should bear these extra costs because it has, of course, a much greater fiscal capacity than the provinces.

The Chair: Thank you, MP Blaney.

We are moving into our second round, members. We have the Conservatives up first.

We'll go to MP Chambers for five minutes, please.

Mr. Adam Chambers (Simcoe North, CPC): Thank you very much, Mr. Chair.

I notice you're in a giving mood this season with your liberal use of the clock. I'll try to be on time as much as I can, but we all appreciate your generosity.

Mr. Giroux, welcome back. Every time we turn around, it seems like we're discussing one of your reports. I think this is a good thing.

We hear a lot about the Congressional Budget Office in the U.S. Out of curiosity, how does your office compare in size to that of fice?

Mr. Yves Giroux: I think, from memory, it's about 10% of the size.

Mr. Adam Chambers: That office is about 10 times larger than yours.

Mr. Yves Giroux: I think so. It's significantly bigger.

Mr. Adam Chambers: The level, the quantity and the quality of work that comes out of your office is always very high, so we appreciate this and all of your team for their hard work for us. This is a newish office. It hasn't been around for generations or even many decades, but I think it's really finding its place in our political dis-

course or helping parliamentarians. Thank you for your service, to all of your team.

I wanted to pick up on what my colleague, Mr. Ste-Marie...on the fiscal situation in the provinces. Do you see the improvement in the last little while as a sustainable improvement or more of a short-term improvement in the fiscal situation of provinces?

Mr. Yves Giroux: I see that more as a short-term improvement because of the pressure that population aging will put on provincial finances, mostly. As I've explained a few times before in other fora, population aging will have differential impacts at the provincial and federal levels.

At the provincial level, the main driver of expenditures caused by population aging will be health care. Anybody who looks at the profile of health expenditure by age cohort will see that the moment somebody turns 65 or 70, annual average expenditures for persons in that age group rise dramatically. They skyrocket when someone reaches 85 or 90, which is not unusual. It's very high in the first year of life for anybody and very high in the last years of life.

Whereas at the federal level, population aging will put pressure on old age security and the guaranteed income supplement, these costs are indexed to the CPI—to inflation—so the growth is constrained to a large extent and much more so than health care expenditures. The other big chunks of expenses at the federal level, which are transfers to provinces and territories, are constrained by GDP growth, by and large.

Structurally, expenditures at the federal level are constrained. Expenditures at the provincial level are skyrocketing because of health care costs. That's how one can explain the differences in sustainability at the federal and provincial levels.

Mr. Adam Chambers: That's very helpful. I think most fiscal federalism is often really just a larger conversation about health care costs. It's provinces, over many governments and many decades, citing the facts of increasing health care costs and aging population. For a number of years.... It's hard to beat the law of numbers. If transfers are going up, say, only by 3%, but health care costs are going up by anything more than that, you eventually get to more of a burden on provinces where this is where the expenditures are.

Is it time, perhaps, for Parliament to consider a really tough discussion on health care about how we can preserve the universality of the system we have, but focus more on outcomes? How can we deliver the right outcomes for people and help contain costs? I'll point out that the Deputy Prime Minister recently said that we should be measuring outcomes.

That's not necessarily a bad thing. If some provinces find different ways to deliver that care while preserving the universality, is that not something we should be having a more honest conversation about, as parliamentarians?

• (1720)

Mr. Yves Giroux: I think when we know that we're heading to a wall, fiscally speaking, or to difficult decisions, the sooner we collectively as a nation or you as legislators have these discussions and come to a resolution, the easier it is to make these changes. We saw that in the 1990s with the CPP and the QPP when it was deemed necessary to increase the rate to face the upcoming wave of retirements. Had governments waited longer, it would have been a different story. We know we'll be faced with health care costs that will go on increasing. The choice is to do something now, or to do something later, but it won't be cheaper if we wait.

Mr. Adam Chambers: Thank you, Chair.

The Chair: Thank you, MP Chambers.

We now move to the Liberals with MP Baker for five minutes.

Go ahead, please.

[*Translation*]

Mr. Yvan Baker (Etobicoke Centre, Lib.): Thank you very much, Mr. Chair.

Mr. Giroux, It's good to see you here again at the Standing Committee on Finance. You appeared before our committee last week as well, I believe, and also before the Standing Committee on Government Operations and Estimates, where I was replacing someone. I have the impression that I'm seeing you almost every day. Mr. Chambers would like to see your office expand, and if so, we could well be seeing one another every week.

We've heard the provinces say that the federal government's contribution for health care only covered 22% of costs. I understand that this figure doesn't take the bilateral funding agreements into account, like those that were signed for mental health and home care funding, or tax point transfers to the provinces.

Does your analysis of federal government expenditure on health care also show a 22% rate?

Mr. Yves Giroux: Thank you for the question, Mr. Baker. It's not that I'm trying to see you so often on purpose; it all depends on the invitations I receive, although I'm always happy to accept them.

With respect to the percentage of provincial expenditures covered by the federal transfers, the figures we arrived at are closer to 32%. To arrive at that ratio, we factor in expenditures covered by the Canada Health Act, things like expenditures on hospitals, doctors, and long-term care centres or homes for the elderly. We don't include services that the provinces opted to provide because that would skew the data somewhat or increase the denominator, which would yield a somewhat lower ratio.

So by the factoring in both federal transfers and expenditures covered by the Canada Health Act, we get to numbers closer to 32% or 33%.

Mr. Yvan Baker: I was a management consultant and I know that in the private sector, at least in well-managed organizations, when you spend money, particularly large amounts of money, considerable resources go towards analyzing how these investments turned out.

Have you analyzed the outcomes of federal investments? Could you comment on that?

Mr. Yves Giroux: No, my office hasn't analyzed the results for health. I know that other organizations are doing that. Some are comparing things like life expectancy in Canada to life expectancy in other countries. From memory, I know that Canada is leading the pack in terms of life expectancy. Apart from that, I have no performance measurements for the Canadian health system or investments by the various levels of government.

• (1725)

Mr. Yvan Baker: Let's start from the principle that the government always wants to improve its fiscal performance, or in other words, to obtain better outcomes for Canadians in terms of federal spending of all kinds.

Would it be a good fiscal practice to begin by analyzing or assessing the performance of investments, whether in terms of transfers to the provinces or other programs, and to then make investments where they would be most effective, by tying investments to outcomes?

Mr. Yves Giroux: I don't know whether it would be desirable to tie investments to outcomes, for several reasons. Nevertheless, measuring outcomes is eminently desirable. If it's to identify best practices and attempt to adapt them to other circumstances, then I don't see how measuring actual outcomes could be a bad thing. The problem likely resides in the measurement of these outcomes, particularly in health. What needs to be measured, and how do you measure the outcomes? That's a question I'd rather leave for others to answer.

In any event, I believe that measuring outcomes is definitely worth doing.

Mr. Yvan Baker: Do I have any speaking time left, Mr. Chair?

[*English*]

The Chair: I was giving out a lot of leeway here, but thank you, MP Baker.

I'll jump on board and say that we always welcome you, Mr. Giroux, and we thank you very much for the work you do for Parliament and parliamentarians.

We're now moving to the Bloc for two and a half minutes.

MP Ste-Marie, go ahead, please.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I agree with my colleagues in acknowledging all the work you do, Mr. Giroux.

I'll begin with a brief comment. We all agree, of course, that health is a provincial field of jurisdiction. It's therefore up to the provinces to speak to one another, identify best practices, and then implement them.

The Bloc Québécois has serious reservations about the idea that Ottawa should attach conditions to health funding or additional funding. When you look at practices like that in other sectors, like transportation and infrastructure, it becomes clear that the process is spread over several years and that major, rather than small, projects are prioritized by some municipalities.

We agree with the provinces on that, which is to say that we wouldn't want to tie funding to any conditions placed on it by daddy Ottawa.

You talked about some of the calculations you did while preparing the report called "Federal Support through Major Transfers to Provincial and Territorial Governments", published on September 20. In order to follow up on your previous answers, I'd like to ask you whether you could give us examples of services provided by the provinces that are not covered by the Canada Health Act.

Mr. Yves Giroux: I was hoping nobody would ask me that, because unfortunately, I don't have an answer. I have a list of what's included under the Canada Health Act, but I don't have any concrete examples of things that would definitely not be included. I will therefore have to check and give you an answer later.

Based on the list, I would say that matters related to pharmacare are probably not included in our calculations, because the report was published over two years ago, nor would optometric services be included. What we're talking about here are services provided outside hospitals and by professionals other than doctors.

Mr. Gabriel Ste-Marie: The provinces are therefore all in agreement in wanting more funding for health transfers, beginning with remedial funds to make up for earlier shortfalls and better indexing to reflect actual costs.

If Ottawa were to provide additional funding, what impact would this have on the federal government's financial sustainability, in comparison to the impact on overall provincial sustainability? Have you evaluated that?

Mr. Yves Giroux: No, I have not evaluated that aspect, but it would be relatively easy to calculate it if the provincial governments were to make specific requests to do so. Based on the July report, the impact on the financial sustainability of the federal government, and the provincial and territorial governments, could be determined. Calculating that would not be a very complicated matter.

[English]

The Chair: Thank you, MP Ste-Marie.

Now we'll have questions from the NDP.

Go ahead, MP Blaney, please.

• (1730)

Ms. Rachel Blaney: Thank you, Chair.

One of the main arguments for equalization in Canada is the principle of horizontal equality, which is to say that, regardless of

where you live in Canada, there should be a basic or standard quality of life, or, as I like to call it, a "bar of dignity".

I'm coming back to you, Mr. Béland.

In your essay on the economics of equalization, which is part of the fiscal federalism and equalization policy in Canada, you explain that principle, as well as some of the traps we can fall into. Would you be able to walk the committee through some of what you think works and some of what you think doesn't work?

Thank you.

Mr. Daniel Béland: I think that equalization is something fundamental for not just our fiscal system but for federalism, because equalization doesn't have any strings attached. The provinces that receive equalization can do what they want with the money they receive, so it doesn't infringe on their autonomy; but, at the same time, it provides provinces with a lower fiscal capacity better services to the residents of their province without having to tax them in a way that is really disproportional to the services they receive. That is why this principle is embedded in the 1982 Constitution Act, and I read subsection 36(2) in my opening remarks.

What works and what doesn't? The first thing I would say is that, overall, equalization does work in the sense that.... We talk a lot about health care, but take another topic like education. We don't have a department of education in this country, as opposed to many other federal countries like the United States. The federal government plays a very limited role in education, especially free secondary education. Jennifer Wallner from the University of Ottawa published a book about this. Despite no federal norms or massive federal intervention in education policy, we are doing very well in international tests, and the inequalities across the country, if you compare the provinces in terms of education, are not that dramatic, so this is a success story.

As Jennifer Wallner argues in her book, it's partly because of equalization. Yes, there is this horizontal redistribution, horizontal fairness, but, at the same time, it's done in a way that protects provincial autonomy, even the autonomy of poorer provinces. Although we can always revise the formula, as I said earlier, there are always things we can improve about equalization. The very logic of equalization is necessary if we want to combine some level of fairness and solidarity with a high level of decentralization, which is what we have in Canada.

[Translation]

The Chair: Thank you, Mr. Béland.

[English]

Thank you, MP Blaney.

Now we'll go to the Conservatives. We have MP Lawrence by video conference for five minutes.

Mr. Philip Lawrence (Northumberland—Peterborough South, CPC): Thank you very much, Mr. Chair. Given your generosity, if you could stop me at 10 minutes, that would be great.

Professor Soderstrom, I'm hoping your Internet holds out. If not, I'll have to have another line of questioning, and that's fine.

You mentioned that the federal government gave out tax points. I'm not a management consultant; I'm just a simple guy from Orono, but I believe that the federal tax rates have changed considerably, which seems to poke a pretty big hole in your theory that these tax points equate to additional money to the provinces.

Am I missing something here?

Mr. Lee Soderstrom: A tax point is a tax point. One tax point generates certain revenue, so that, if you pass one tax point from the feds to the provinces, the provinces then have more power to collect revenue.

• (1735)

Mr. Philip Lawrence: But since then, the feds have increased taxes and reduced taxes as well over the last 30 years or so. It hasn't stayed constant, so I fail to see where that transfer has remained constant.

Doesn't that undermine your point?

Mr. Lee Soderstrom: The tax points that were transferred have remained constant since 1977.

Mr. Philip Lawrence: Okay, so the—

Mr. Lee Soderstrom: The number of tax points transferred remains constant.

Mr. Philip Lawrence: Just to understand that, when you say that the tax point have transferred, my understanding was that the federal government lowered its taxes, and so allowed the provinces to increase their taxes.

Have I understood that?

Mr. Lee Soderstrom: Yes.

Mr. Philip Lawrence: But the feds have since increased their taxes.

Mr. Lee Soderstrom: That's for other purposes.

Mr. Philip Lawrence: Thank you, Professor Soderstrom. I appreciate that. I'm glad the Internet held up.

I'll just make a quick comment. That doesn't hold water. As I said, the tax points have since gone up. That money's no longer being transferred to the province.

Mr. Lee Soderstrom: I'm sorry, but you're wrong on that. The money is there.

Mr. Philip Lawrence: I think that's apparent on its face.

Thank you very much, Mr. Soderstrom.

Mr. Béland—

[*Translation*]

Mr. Gabriel Ste-Marie: I have a point of order, Mr. Chair.

When several people talk at the same time and there is crosstalk, the interpreters can't do their work properly.

[*English*]

The Chair: You are right, MP Ste-Marie.

Witnesses and members, we don't want any crosstalk. It is very difficult for the interpreter—I can only imagine.

You can continue, MP Lawrence, please.

Mr. Philip Lawrence: Thank you very much.

My apologies, Mr. Chair.

My apologies to the interpreters. I know they're doing an incredibly difficult job.

Professor Béland, the challenge I have with your theory of an arm's-length body is that “arm's length” is really another word for “unelected.”

Yes, democracy is messy, and politics is messy. I am the voice of Northumberland—Peterborough South. When we remove elected officials, which, granted, is politics.... But politics isn't all bad. Politics means bringing the voices of Cramahe and other small towns to Ottawa.

Excuse me if I'm a little bit skeptical of another bureaucratic body that at least contends to be an expert to tell the people of Alberta or British Columbia how much money they should or should not receive.

Can you understand my concern there? Is that legitimate at all?

Mr. Daniel Béland: Yes, but the thing is that civil servants, bureaucrats, are already playing a major role in tweaking fiscal transfers. They do a lot of work. Then, of course the executive and the House of Commons play a major role in that.

What I'm proposing is not that these people will make the decisions for elected officials. They will make recommendations that elected officials and Parliament can then decide to adopt or reject.

It's just about getting better and more detached advice than from civil servants who directly depend on the elected official—for example, civil servants working in the Department of Finance.

I think that having the advice and recommendations about equalization coming from an outside body and not coming, say, from the Department of Finance, would probably actually be better in terms of optics, and perhaps also in terms of the quality and detached nature of the advice.

Other countries are doing this, not just Australia. This is not just some kind of weird idea that I'm the only one talking about. This is quite a common practice around the world.

Mr. Philip Lawrence: I wasn't saying it was weird for a second, Professor Béland.

You can understand my concerns here.

My next question is for Monsieur Giroux. I'll jump in and—

The Chair: You only have time for a very short one, MP Lawrence.

Mr. Philip Lawrence: Am I done? I'm sorry, Mr. Chair.

The Chair: Yes, that's the time. We've gone over the time. We didn't quite get to the 10 minutes, but it was close.

We are now moving to MP MacDonald for five minutes, please.

Mr. Heath MacDonald: Thank you, Chair.

It's an interesting conversation, sitting here listening to the different parties discuss how the services are delivered from province to province. Mr. Morantz talked about his son, and even Mr. Chambers talked about unconditional transfers.

I'll go to you, Mr. Giroux, and ask you your opinion of unconditional transfers. Is there an opening, a positive message, or something that you could describe as being more beneficial in your view when evaluating where the money has gone and how it's being spent? Is it just something that we're tossing around for consideration related to the political agenda of whichever party's at the helm?

● (1740)

Mr. Yves Giroux: My understanding is that equalization is unconditional. CHT is largely unconditional, because money is fungible anyway. The same goes for the CST, the Canada social transfer. The federal government is accountable to the electorate for the amount of money it spends and sends to provinces. Provinces are accountable to their electorate for how well—or not so well—they deliver services with the resources they have.

That's probably as much as I can say on that topic.

Mr. Heath MacDonald: The tendency for discussion around fiscal federalism is to focus solely on equalization. We're hearing around the table about regional economies and the architecture of federalism that somebody talked about earlier.

In your mind, how important is it for governments to expand the scope of the formula or to at least investigate the formula, relative to what you're hearing today and what you've written about?

Mr. Yves Giroux: My opinion on that is you, as legislators, have voted on legislation. I think legislation should be based on principles and left alone, unless there are major structural issues. The risk in reopening legislation every few years is that every time one jurisdiction is unhappy with the amounts it receives or with an outcome that was not anticipated, we reopen legislation and we amend a very complex formula which has implications in the billions of dollars.

I think we should have legislation for equalization and other transfers that's based on a series of broad principles that's developed, debated and approved in Parliament. We should leave it alone, unless there are major issues that are found to be of concern by parliamentarians.

Mr. Heath MacDonald: Back to my initial comment on regional economies, for example, or industries and sectors, it's different right across this vast country of ours, obviously. We talked a bit about demographics. That's going to change year to year. Each province will be different, and so on and so forth.

I remember on Prince Edward Island the growth we've had from many individuals moving from Ontario. When you look at that, it's great to see the numbers coming, but let's be honest. The consumption tax and our health organizations—Health PEI in our case—are being extremely stressed. It's a lot of that older demographic moving to Prince Edward Island.

I guess what I'm asking is, how do you change that complicated formula—because it is complicated—to include those regional economies or demographics or whatever?

Is it possible?

Mr. Yves Giroux: It would be possible to also look at the needs. You can add an element of demographics, not just looking at the overall population numbers, but the composition of that population to take into account, for example, the fact that some provinces have more older folks than others. However, that would be detrimental, so to speak, to provinces that are younger.

That's what I mean. If you start playing with the formula, there's always somebody who is disadvantaged by any change you make. That's why I'm saying, once we have a formula, we let it work its magic.

Mr. Heath MacDonald: Thank you.

The Chair: Thank you, MP MacDonald.

That ends our second round.

We are into our third round. We'll get through the third round and then we'll have to break up the time equally at that the end of that round.

In this third round, the Conservatives are up first. I have MP Hallan for five minutes, please.

Mr. Jasraj Singh Hallan (Calgary Forest Lawn, CPC): Thank you, Mr. Chair, for your generosity today.

Thank you to all of the witnesses.

My questions are for Mr. Giroux.

Energy plays a big part in the fiscal stability of Canada. Energy provides a lot to the revenue. Provinces contribute to equalization. With provinces like mine, in Alberta, we make a substantial amount from energy royalties. The Canadian Energy Centre projects that between 2000 and 2019 the energy sector provided provinces with an average of \$35 billion in royalties.

What do you think the overall impact would be to equalization if energy wasn't there to provide so much government revenue?

● (1745)

Mr. Yves Giroux: The equalization formula includes provisions for non-renewable resources.

If there was not the energy sector in Alberta, it's clear that the economy in that province would not have flourished as much as it has for the last couple of decades. It would be clearly detrimental to both levels of government. I mean the federal as well as, obviously, the provincial government.

Mr. Jasraj Singh Hallan: Thank you.

We've seen many energy projects cancelled or frozen by federal bureaucratic red tape. What has the impact been on equalization when energy projects like the 15 LNG projects that since 2015 have not been built yet, pipelines like Energy East got cancelled, and mines like the Teck Frontier, the project in Fort Mac, got cancelled? What's your opinion on how big an effect that would have?

Mr. Yves Giroux: It's difficult to determine exactly and quantify that impact. But assuming that these projects would have increased GDP, they would have benefited equalization by leading to a slightly faster GDP growth, to which the size of the equalization formula is linked. That being said, there would have been other considerations, for sure, in having these projects go ahead.

But from an economic and federal-provincial transfer dynamic, I think it's safe to say that those would have been the impacts.

Mr. Jasraj Singh Hallan: Thank you.

In your opinion, what kind of impact do you think a decline in energy projects would have on fiscal federalism in Canada?

Mr. Yves Giroux: That's a much bigger question than just transfers themselves, because then you get into the dynamics of reducing transfers, increasing transfers, equalization and so on, as well as some pure policy questions regarding provinces blocking developments of others, etc., which is not for me to comment on.

Mr. Jasraj Singh Hallan: Fair enough.

Jay Goldberg from the Canadian Taxpayers Federation told this committee that equalization formula changes, such as reducing resources revenues to 50%, have punished resource-heavy provinces such as Alberta, Saskatchewan or Newfoundland and Labrador, and has disincentivized other provinces from developing resources.

If there isn't new resource development in the so-called have-not provinces, how does this affect the sustainability of equalization and the current fiscal federalism model?

Mr. Yves Giroux: That's a delicate question, because I know it was the subject of many deliberations of the Expert Panel on Equalization in 2005-06, as Processor Béland alluded to.

It's true that the moment you include some types of revenues in the formula to determine the entitlement of equalization to provinces, it provides a disincentive to that tax base growing, because otherwise, if they grow or allow that tax base to grow, it diminishes their entitlements for equalization.

But I think there are broader incentives at play that provinces should take into account when deciding to develop—or not—certain sectors than just revenues that they could forego from the federal government, such as jobs for their citizens.

However, it's true that including some elements in the formula for equalization can have perverse incentives.

The Chair: Thank you, MP Hallan.

We're now moving to the Liberals and MP Baker for five minutes.

[*Translation*]

Mr. Yvan Baker: Thank you, Mr. Chair.

[*English*]

Mr. Soderstrom, I want to start with you, if I may, briefly.

You've spoken quite a bit about tax points. I'm wondering if you have data you could share with this committee—if not today, maybe in writing—of how much we lowered the personal income tax and corporate tax in 1977, and how much the provinces raised theirs and the dollar value of it then on an annual basis—and also in today's dollars—just so that we can evaluate the extent to which those tax points have resulted in a transfer of funding capacity from the federal government to the provinces. Could you share that with us in writing?

● (1750)

Mr. Lee Soderstrom: You raised a good question. As I've been thinking about the cost-sharing issue for the last couple of years, I realize that one of the mistakes I and my colleagues in health economics made is that we didn't look at the response in taxes at the federal and provincial level after 1977. So you couldn't go into the literature and find an answer to your question.

There's a good Ph.D. thesis there, though, for somebody to go back and look at what actually did happen to federal and provincial taxes to see if the feds actually reduced all of the points they promised and if the provinces did the opposite.

Mr. Yvan Baker: Let me just jump in there. I've pursued a couple of degrees at university and I won't pursue a third, or a Ph.D. thesis or anything like that, but if you can share it with the committee in writing, I really would be interested in what the dollar value was of the change in taxes that the federal government gave up to the provinces in those tax points.

I'm just looking for a quantification of the tax points that you spoke about. If you could sent that into the committee, that would be great.

Mr. Chair, I'd like to move on to another question, if I may.

Mr. Giroux, I'd like to come back to you, if I may.

Chair, how much time do I have?

The Chair: You have two and a half minutes.

Mr. Yvan Baker: Mr. Giroux, first of all, in our earlier exchange, we were talking about the value of measuring value for dollars. Those are the outcomes that we obtain for Canadians for the federal dollars invested. You talked about the fact that analyzing that, or measuring that, would be useful.

Let's say we did measure that. I know that there are challenges in measuring certain things, but assuming we do our best and we get over that hurdle, what's the value of that for government? What could we potentially do with that information?

Mr. Yves Giroux: I'm not sure there would be that much value for the federal government itself. There could be, depending on the policy directions that the government chose to take.

I think the value would be mostly for citizens. They would have a better idea as to how their tax dollars—ultimately, it's their tax dollars, whether they're provided by the feds or the provinces—are used and how efficient their use is.

I think there would be some benefits for provinces and territories, too, in the sense that if they see that some jurisdictions can perform surgeries, for example, in a more efficient manner, they could learn from each other, taking into consideration the differences in backgrounds, environments and clientele. I think that's what the value could be. We might find that there are useful areas to spend in or invest in, in that case, that we haven't thought about.

To go back to our earlier exchange, I'm not implying that it is necessarily the federal government's job to collect that information. To go back to Mr. Ste-Marie's point, I'm not implying that the federal government necessarily has to do that job, but there are federal institutions that collect data, such as the Canadian Institute for Health Information, known as CIHI. They provide valuable information to provinces and territories and Canadians.

Mr. Yvan Baker: You spoke earlier about the fact that we are accountable to citizens, as elected officials at the federal and the provincial levels. As someone elected and who's accountable to the citizens of the community of Etobicoke Centre, if we discovered that certain investments or certain federal spending was resulting in better outcomes than other spending, would it not be incumbent on us, as legislators accountable to people who want to get maximum value for the dollars, to make adjustments in how we spend or to urge those who are ultimately executing that spending to deliver higher outcomes?

Would that not be appropriate?

• (1755)

Mr. Yves Giroux: I think Canadians would expect you to intervene in that manner and make these recommendations or have these discussions.

The Chair: Thank you, MP Baker.

We'll go now to the Bloc and MP Ste-Marie.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

Similarly, I think all provincial elected officials should seek out data to enable them to determine how efficient the federal government is in issuing passports. They could then make recommendations to the federal government and tell it how to do its job.

I am just talking, of course. As my colleague pointed out, there is something called the Constitution which sets out the areas of jurisdiction. I think each order of government should focus first on serving its role effectively in its areas of jurisdiction before it sticks its nose in the business of the other order of government.

I'm sorry, let me get back to my questions.

Mr. Giroux, I would like to know if it is possible to link your 2020 study on federal support, where you provide calculations regarding federal payments under the Canada health transfer, and your reports on more long-term financial viability.

If I understand correctly, the Canada health transfer was renegotiated a few years ago, resulting in a gradual decrease in the percentage of health care expenditures funded by the federal government. According to your table on page 2, that seems to have levelled off as early as 2016-2027, but the data only goes up to 2018-2019, since your report was produced in 2020.

Can you predict how this percentage will change in the years ahead if there are no new policies or new negotiations?

Mr. Yves Giroux: The percentage is not likely to increase much, but it might level off or decline as the number of elderly and very elderly people increases. I am talking about people aged 85 or 90, who are unfortunately at the end of their lives. That will place pressure on hospital systems and health systems. The percentage of health care expenditures funded by the federal government is expected to decrease gradually, because the provinces will see their health care expenditures increase and will be under increasing pressure, whereas the health transfer increases at the same rate as the economy.

Mr. Gabriel Ste-Marie: As you said earlier, health care costs are much higher for seniors than they are for younger, more active people.

Can you give us some average ratios to illustrate the need for health care services? For example, does health care for a senior cost four times more than health care for a younger person?

Mr. Yves Giroux: That depends on the age of the people you are comparing. That data is available from the Canadian Institute for Health Information. That information is public and, if I am not mistaken, we can easily have it sent to you in writing.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we'll move to MP Blaney, please, for two and a half minutes.

Ms. Rachel Blaney: Thank you so much, Chair.

Mr. Béland, your essay on the economics of equalization alludes to the cost of living and how that can encourage or dissuade migration. I think all Canadians from coast to coast to coast are feeling extremely strapped for cash right now.

I'm wondering if you are concerned about the impacts of inflation. Are there areas of the country that you feel may be more at risk for feeling the impacts of inflation disproportionately? If so, what's the risk for provinces in terms of fiscally induced migration?

Mr. Daniel Béland: Yes, this is a bit outside my area, really, but I could say that inflation is hurting low-income people more than higher income people. Obviously, that is true all across the country. I think we need to address that, but I do think that fiscal federalism is probably not the best tool that we have. Transfers to individuals and families is probably the way to address this.

Here, I think the federal government has an important role to play, but of course fiscal federalism supports the provinces, which can also develop their own programs to support individuals and families, especially low-income individuals and families who are coping with inflation.

I think there is a direct way to do it through measures enacted by the federal government. Also, of course, if you help the provinces from a fiscal standpoint, they can adopt the measures that they see fit.

I do think that low-income people are especially vulnerable to inflation. This is something we should keep in mind, not just when we talk about fiscal federalism, but when we talk about social programs at large.

• (1800)

Ms. Rachel Blaney: Thank you for that.

I know that a lot of provinces have challenges around this issue of migration. Families are often split up. In some parts of my riding, we see a lot of people going to different provinces to work.

To come back, I understand it's not your area of expertise, but you talked about low-income people experiencing that.

Do you see that as a factor for low-income provinces, as well? How does fiscal federalism help with supporting stabilization for communities? Is that even something that we can look at?

Mr. Daniel Béland: Yes, the populations of poor provinces are on average more vulnerable than wealthier provinces, in a way, when we talk about the negative effects of inflation, in a sense. You could say that.

Regarding migration, you raise a very important issue. I think equalization, implicitly at least, is partly about helping people stay where they live by providing them with relatively good public services for a tax burden that's not excessive. By helping poorer provinces offer decent services to their inhabitants, you could say that it probably makes it easier for them to keep their people. People can leave their province for different reasons—because of job opportunities elsewhere and so forth, or a lack of job opportunities at home—but we don't want people to leave their province because the social and health services are so bad that they need to move to another part of the country to access decent services.

Equalization is part of the tools that we have to prevent that.

[*Translation*]

The Chair: Thank you, Mr. Béland.

[*English*]

Thank you, MP Blaney.

We'll now move to the Conservatives with MP Chambers for five minutes please.

Mr. Adam Chambers: Thank you, Mr. Chair.

I'm realizing from all of this discussion about provincial finances that maybe Mr. MacDonald should be a witness to give us his experience in the province of P.E.I., both in the provincial legislature and as a minister.

Mr. Béland, I just want to pick up on a conversation you had with my colleague, Mr. Lawrence. For this commission that you're considering in terms of a governance model, have you—and forgive me for my ignorance—discussed how you might set it up? Is the CPP an option as a governance model in the way that it's chosen? Is that what you think might be viable?

Mr. Daniel Béland: This is a very good question. Thank you very much.

Yes, the CPP Investment Board is actually something we discussed in a paper that we wrote for the now extinct Mowat Centre, a paper that I can send to the clerk or someone else at the committee who can distribute it. We wrote this paper quite a few years ago and it's still available online. We discussed the CPP Investment Board as a potential template to create a permanent equalization or fiscal federalism commission in Canada. Your question goes in the right direction in the sense that this is something that we have considered, and I think this is something that we should still consider moving forward.

Mr. Adam Chambers: Thank you.

If you could share that it would be helpful. I did just want to point out that you used the example of education as an area in which the federal government has very low involvement, and yet you also pointed out that as a country our test scores and education outcomes compared with our peers' are quite high. Correlation isn't causation, but I might at least posit that we should explore that maybe the reason why we have good outcomes and scores is that our federal government isn't as involved in education. I will leave that there for now.

Mr. Giroux, we talked a little bit about tax points and transfers. There really is just one taxpayer. We all have these tax-sharing arrangements now with provincial governments. Is it really like a tax point transfer discussion that has to happen, or can it be just allocated based on revenues generated from that province with which there is tax-sharing agreement? Do you have to really get into this tax point transfer? It seems quite complicated. Could you not just say, look, there's one taxpayer who pays this much in tax and it's all going into the same pot? Is that a conversation that ought to happen, or is the system we have set up working okay?

• (1805)

Mr. Yves Giroux: That's all in the eyes of the beholder. The last time there was a significant tax points transfer, as Mr. Soderstrom pointed out, was 1977. It was a long time ago. Personally I think this issue is behind us for a reason, and that's because tax points don't have the same value in different jurisdictions. It's much more lucrative to transfer the tax points in Alberta than to get the same tax points in New Brunswick or Quebec, for example. That's why probably there was a one time...or the last time was back in 1977, because they don't have the same value. Personally I think that issue is behind us and we should consider it done. That's an idea that has probably done its time.

Mr. Adam Chambers: Thank you.

I have one final question. We just heard a little bit of a discussion about inflation. We did have the Auditor General's report yesterday, but there appear to be 15% of COVID pandemic benefits that have now been questioned in terms of eligibility criteria. I'm not into the politics of that, but from an inflationary perspective, would it be your opinion that money that was given out as part of this would have had an impact on the inflationary pressures we've seen?

Mr. Yves Giroux: It's clear, especially with the numbers that the Auditor General was mentioning in her report yesterday, that when you're talking about dozens of billions of dollars, it adds to the inflationary pressures. Even though it's decimal points only, it still is an addition to inflation.

Mr. Adam Chambers: Thank you, Mr. Chair.

The Chair: Thank you, MP Chambers.

We are now moving to the Liberals with MP MacDonald for five minutes.

Mr. Heath MacDonald: Thank you, Chair.

I want to continue a little bit on that conversation you just had with Mr. Chambers relative to target spending.

Was it appropriate for the government to very specifically target spend? What type of inflationary impact would that have on programs such as CERB, when individuals basically lost their jobs and so on and so forth?

Mr. Yves Giroux: It would be hard for me to say it was not appropriate to have these programs when the House, I think, voted unanimously for them. I would be going against 338 MPs and 100 Senators. I'm not that courageous yet, or not close enough to retirement.

Some hon. members: Oh, oh!

Mr. Yves Giroux: I would say it was probably appropriate. The impact of not providing these programs would have been, I think, catastrophic. We would not have talked about inflation; we would have talked about depression, probably mass bankruptcies and significant human cost.

Mr. Heath MacDonald: I guess something I'm interested in a little bit is that the federal government did much of the heavy lifting through the past two and a half years in COVID. We're seeing many surpluses in budgets right across the country. Their credit in many of these provinces will allow them to borrow more next year and maybe more the following year.

How do you measure that going forward? How do you foresee that in your forecast on what will transpire as far as transfers and things like that?

If they spend based on this year's income because of the federal contributions through the pandemic.... I guess if the bond writers are basically looking at them and allowing them to maintain their level of achievements and then they go out and spend more the next year or the year after, we're going to see another decline. We will be sitting back at this table again talking about transfer payments not being enough, possibly.

• (1810)

Mr. Yves Giroux: I'm not exactly sure I understand your question. I think what you're referring to is the capacity of provinces to borrow at reasonable rates because of the fact that their fiscal situation is sounder than it would have been.

The bond rates applied to provinces is usually that of the federal government plus a premium that varies across jurisdictions depending on the perceived risk of each jurisdiction. It's true that the fact they did not bear the brunt of the pandemic response or the cost of the pandemic leaves them in a better fiscal position. Without that, their debt levels would have been higher and the premium they have to pay compared to the federal bonds would probably be slightly higher than it is.

The counterfactual we will never know for sure because there's no way to run that experiment, thankfully.

Mr. Heath MacDonald: Do I still have time, Mr. Chair?

The Chair: You still have a minute and a half.

Mr. Heath MacDonald: The funding to the provinces, such as the \$4-billion top-up to health transfers and \$2 billion to clear surgical backlogs and improve conditions in long-term care.... That doesn't include the extensive support for the testing and contact tracing.

Do we, or do you, have any accounting or data that shows if the \$4 billion plus the \$2 billion top-up payments to reduce surgery backlogs and for long-term care funding was fully utilized for those purposes? Does your office have any accountability of that or tracking of it?

Mr. Robert Behrend (Advisor-Analyst, Office of the Parliamentary Budget Officer): As those monies are transferred to provinces, there's no accountability. The provinces were able to spend as they saw fit to meet their needs for services to their residents.

Mr. Heath MacDonald: Again, we're back to the accountability thing. I think everybody is saying now that maybe there should be some sort of measurement on how provinces spend their money relative to health care and some of the social programs they have. Measuring that, obviously, will be very complicated.

In short, saying the formula that's used for the equalization payments stays as is, but over and above that there's additional... Maybe it's some of the stuff that Mr. Béland is talking about if there's an additional way to measure, like we do with every other program that we transfer from the federal government to the provincial government. We're transferring money all the time.

Would it be worthwhile to look into having it over and above the present equalization? If we increase the health care budget by 10% or 15%—I think we did say we would by 10%—is there some other mechanism besides testing the equalization? Obviously, from your point of view we shouldn't fool around with it too much.

Mr. Yves Giroux: If there's a specific purpose that the government has in mind—for example, improved health outcomes—it certainly is possible for the federal government to introduce such transfers. As I said before, Parliament can deem Mondays to be Fridays, so it can certainly do many more things than that. But that's an issue for politicians and legislators to debate.

Mr. Heath MacDonald: Thank you.

The Chair: Thank you, MP MacDonald.

I'm looking at the time, members. It is our practice on this committee that when we don't have enough time for a full round, we split the time equally. I'm looking at about 16 minutes, so it would be about four minutes per party.

We will start with the Conservatives.

MP Morantz, go ahead, please.

Mr. Marty Morantz: Thank you.

Mr. Giroux, earlier in our discussion you mentioned, and I believe I'm right on this, that the transfers for provinces, whether they be equalization, health or social, are essentially without strings attached. The province gets this money and they can allocate it as they wish.

Recently, there's been some back-and-forth in the media over the health transfer. I noted that recently the health minister, Minister Duclos, was cited as saying in an article that Ottawa was ready to commit to additional health care dollars for the provinces and territories, but that this new money would come with conditions, which would include—so it's not an exclusive list—expanding the use of common key health indicators in building a world-class health data system for the country.

That statement seems inconsistent with your understanding of how this works. I'm wondering if you could comment on that. Does

the federal government have the right to impose conditions on the provinces as to how they use these monies?

• (1815)

Mr. Yves Giroux: My understanding is that the CHT, CST and equalization are unconditional transfers, but given the needs of provinces, it's fair to assume that all of the money transferred to provinces for CHT goes to provinces. On whether the government has the capacity to do conditional transfers, again, I'm not a constitutional expert. I think there's as much politics in that as there are constitutional issues. That's why I'm happy to say that I cannot comment much more than that.

Mr. Marty Morantz: Mr. Giroux, after talking to you over the last years, I'm convinced you are an expert in everything.

Voices: Oh, oh!

Mr. Marty Morantz: Professor Béland, I have a question for you. I think you've written something positing this idea of a federal-provincial taxation regime to fund health care in replacement of the Canada health transfer. I think I have that right. You can correct me if I'm wrong.

I just wanted some clarification on your thinking here. In this tax regime, would there be a corresponding tax reduction correlated with the amount of the Canada health transfer, or is this a new tax on Canadians?

Mr. Daniel Béland: No, no. What we can do is use an existing tax—for example, part of the GST or business income tax—and then allocate it to the provinces. The thing that's important here, of course, goes back to the idea I'd put forward with Trevor Tombe.

I think the URL of our paper is embedded in the text I sent to the clerk. It's available to you and is already online.

The idea here is that the provinces will actually have to be consulted over any change to the tax rate. Really, it would become a shared tax so that the federal government could not suddenly lower the tax if it's to go to the provinces.

Here again, we actually borrow the government's mechanism of the Canada pension plan, where you need two-thirds of the provinces representing two-thirds of the population to actually support a change in order for the change to occur. I think that's a way to protect the provinces. If it's really a tax-sharing system, and the tax is being shared, the provinces should have a word to say in terms of increasing or decreasing the tax rate.

This is the idea we put forward in our paper for the University of Calgary policy school. There is another version of the paper. As soon as it's published in an academic journal, I will circulate it to this wonderful committee.

The Chair: Thank you, MP Morantz.

Now we will go to the Liberals.

MP Virani, welcome to our committee.

Mr. Arif Virani (Parkdale—High Park, Lib.): Thank you. It's a pleasure to be here, Chair.

Thank you to the witnesses.

I've been listening along. This is not my usual committee, but I'm going to ask you two questions.

One, Mr. Giroux, is that you opined a bit about attaching conditions to federal transfers. I am a lawyer. We know from constitutional jurisprudence that there is shared jurisdiction in the area of health, right? That's a case called RJR-MacDonald, where it was established quite clearly by the Supreme Court.

We also know, obviously, that there is federal legislation: the Canada Health Act. That has been mentioned many times. It's certainly within the purview of the federal government to ensure the principles that are enshrined in the Canada Health Act are maintained by the provinces, right, so I'd agree with that.

I thought it was quite illuminating when you were outlining some of what has been represented in the public domain versus what your number crunching is showing. I take great stock in terms of the fact that you are, as you said, accountable to all 338 of us and all of the senators, etc. That's important, but you said, as opposed to the 22% number we've heard bandied about, that it's actually more like 32% to 33%, which I think you said about 45 minutes ago.

I'll say to you in the wake of some of the questions put to you by my colleague Mr. MacDonald that the lion's share of the COVID supports that were put in place—the number we as government members frequently use is \$8 out of every \$10—were federal dollars to support Canadians during COVID. Those were important, and many of those supports were in place to address the concerns, as you said, of avoiding the calamity of depression, and of massive poverty, which I would add to that list, etc.

That being said, when we enter into this discussion about transfers, particularly on health, we're also seeing where the largesse of the federal government has resulted in deficits and debts on the federal side, but we're looking at provinces that are sitting on surpluses, including my home province, which is Ontario.

Do you make similar observations and do you have any suggestions about how equalization payments can be structured to address that inequity between surpluses on one level of government versus deficits on another?

• (1820)

Mr. Yves Giroux: Well, we're talking about I think potentially two different things. There are structural and cyclical deficits and surpluses. On the one hand, we have the federal government that is in deficit because of I think two things—cyclical. We suffered what was a short and profound recession and we're recovering from that, but the government also embarked on a series of spending decisions, which is well within its policy purview, whereas provinces have recovered more quickly because they have not needed to go as deep in debt as the federal government due to COVID-19. Both elements are there.

But looking at the longer term, when we do the fiscal sustainability report we assume that everything is put on autopilot, and we see that the federal situation is likely to be better than the provincial situation, taken as a whole, for the structural elements that I talked about earlier.

Mr. Arif Virani: Okay.

You also mentioned at one point that there are some of the benefits that are.... In the context of a slightly different discussion about inflation, you talked about certain benefits being indexed to inflation. My understanding of the various benefits that are tied to the cost of living.... I forget the index you called it: CAI, CPI—

Mr. Yves Giroux: The CPI.

Mr. Arif Virani: They include the Canada child benefit, the GST credit, the CPP, OAS and the GIS. Even, in fact, the federal minimum wage—which was increased to \$15 an hour—is also tied to that index. Is that a step in the right direction in terms of addressing pressures that relate to the cost of living and that Canadians are experiencing around the country right now?

Mr. Yves Giroux: Well, the fact that these benefits are indexed, with a certain lag to take into account data gathering, is intended to fully protect recipients from the impact of inflation. I think it does a relatively good job of that because of their nature. It's fully indexed, which is not what every worker gets when they retire. Some pension plans are fully indexed and others are not, but the Canada pension plan, the Quebec pension plan, old age security and the guaranteed income supplement are fully indexed, so they are designed, by their very nature, to protect the purchasing power of seniors who receive these benefits.

The Chair: Thank you, MP Virani. That's the time.

We're off to the Bloc and MP Ste-Marie, please, for four minutes.

[*Translation*]

Mr. Gabriel Ste-Marie: Thank you, Mr. Chair.

I have few comments on the last exchange. We often hear from the federal government that it took action to support the economy during the pandemic. That is what we in the Bloc Québécois asked for. We relied in particular on your reports regarding financial viability, Mr. Giroux. We could see that the federal government had much more fiscal leeway than the provinces, according to long-term projections. So from our point of view it makes sense that the federal government would take such action.

The government bragged about its new spending related to the pandemic, especially spending related to vaccines. It said that the federal government contributed eight out of every ten dollars. In response to that, I pointed out that, every year, the provinces can contribute up to eight out of every ten dollars for regular health care expenditures, or seven out of ten dollars, according to your figures, Mr. Giroux. So we can see how it all balances out.

In short, it was the federal government that had the leeway.

What we are hearing now is that provinces are accumulating surpluses, while the federal government incurred huge debts to get through the pandemic. In response to that, I refer once again to the report on financial viability. In spite of the massive, historic and record level of debt incurred by the federal government to help Canadians and the economy get through the pandemic, that does not fundamentally change the picture, as you pointed out, Mr. Giroux. Rather, this debt is cyclical and tied to the current economic environment, and that does not change the fundamentals.

Based on that analysis, Mr. Giroux, I have the following question for you.

We are talking about fiscal federalism right now. Have your reports on financial viability and your various analyses allowed you to determine whether there is truly a fiscal imbalance between the orders of government?

• (1825)

Mr. Yves Giroux: The term “fiscal imbalance” has been the subject of heated debate in the past. I will probably avoid it so as not to revive old debates or re-open old wounds.

That said, when I published my first financial viability report in my current position, and even with the following report, I was surprised by the lack of discussion or debate about that imbalance, which I promised not to mention.

With regard to funding, the federal government seems to have fiscal flexibility, but there are not enough funds at the provincial level, at least in the long term. I would have expected this to give rise to a discussion about a transfer of funds from one level to the other. To my great surprise, however, that debate never occurred. Then the pandemic started, so there was really no opportunity for that discussion. We all had other concerns.

Mr. Gabriel Ste-Marie: Now we can finally address this issue. We will certainly come back to it.

Those are all my questions, thank you.

I also want to thank the two other witnesses appearing by video-conference. I think I will have the chance to ask them questions another time.

The Chair: Thank you, Mr. Ste-Marie.

[*English*]

Now we're moving to the NDP and our final questioner, MP Blaney.

Ms. Rachel Blaney: Thank you, Chair.

I'm going to come back to Mr. Béland. I'm finding our conversation really interesting.

I want to circle back to the first question that I asked. In the answer you gave me you mentioned the idea of a climate transfer and the fact that it really hasn't come up as a domestic discussion. You outlined some of the avenues you think would be best to facilitate that conversation.

In response to other questions you have also mentioned some ways other jurisdictions do fiscal federalism well—Australia and their GST, for example.

With that in mind, do you know of any other countries that are exploring the idea of climate transfer, or do you have an example of somewhere else that has a climate or environmental lens to their approach to fiscal federalism and equalization?

Mr. Daniel Béland: I think this is something that is being discussed, but I'm not aware of a major program in another country that will be the equivalent of what you have in mind. I think it's worth exploring that and looking at what is debated in other countries. There is nothing I can think of right now where I would say, oh, that would be the template that Canada could use. Based on what I know, there's nothing I could say on the model to follow or not.

Ms. Rachel Blaney: That's fair enough. I hope you keep your eye out on that.

When you did respond to me, you talked about the expert panel and how that might be one of the facilities and places that discussion could happen. You've talked a bit about what that might look like, but could you just give us a more fulsome idea of what that would look like, how that would be appointed, who would be invited and what their role would be in the context of these decisions?

Mr. Daniel Béland: There is a template. You can find it on the website of the Government of Canada. If you look at it, the template is the Expert Panel on Equalization and Territorial Formula Financing. There is a report that it published in May 2006. The panel was appointed by Paul Martin, and the chair was Al O'Brien from the University of Alberta.

You can see that they explain at the beginning of the report how they were appointed and the work they did. I think this could be a template for future expert panels, because I think this expert panel, in terms of the depth and quality of the report they submitted, is really a template that we could certainly reuse to address new fiscal challenges and issues, including some of the ones you mentioned today.

Ms. Rachel Blaney: Thank you.

The Chair: Thank you, MP Blaney.

On behalf of the entire finance committee, we want to thank our excellent witnesses for appearing and for their testimony for this study.

We thank Professor Béland and Professor Soderstrom. Of course, I'll amplify what many of the members said here: You're always welcome. We like having you here.

Parliamentary Budget Officer Giroux, thank you very much. Yes, I heard the accolades that you got from MP Morantz about how you're the master of everything and know everything. We'll often, I'm sure, have you here before our committee.

Thank you very much, everybody.

Members, we are adjourned.

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