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• (0815)

[*English*]

The Vice-Chair (Jasraj Hallan (Calgary East, CPC)): I call this meeting to order.

Good morning, everybody. We'll get started with our meeting today. Welcome to meeting number 38 of the House of Commons Standing Committee on Finance.

I'll remind you that all comments should be addressed through the chair.

Pursuant to Standing Order 108(2) and the motion adopted by the committee on Monday, March 9, 2026, the committee is undertaking a study of the federal spending power.

I would like to welcome our witnesses. All virtual witnesses have conducted a mandatory witness onboarding test.

You will have five minutes for your opening remarks, after which we will open the floor to questions.

We'll start with Daniel Béland, who is appearing as an individual.

Go ahead. You have five minutes.

Daniel Béland (Director, McGill Institute for the Study of Canada, As an Individual): Thank you very much for your invitation.

[*Translation*]

Good morning. Thank you for giving me the opportunity to share my views on the federal spending power.

The federal government's spending power is not explicitly enshrined in the Constitution, and efforts to establish a framework for it under the Meech Lake and Charlottetown accords were never implemented due to the failure of those agreements. In this context, Parliament—including your committee—is responsible for working on a framework for this power.

[*English*]

Today I want to focus on equalization, a large-scale use of the federal spending power that, as the late Tom Kent once remarked, is now featured in our written Constitution. As stated in subsection 36(2) of the Constitution Act, 1982:

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.

Despite this constitutional embeddedness of the general principle of equalization, the concrete federal equalization program and the formula used to calculate payments received by provinces that are entitled to benefit are enduring sources of controversy across the country in both receiving and non-receiving provinces.

For example, in 2024, the Government of Newfoundland and Labrador filed a lawsuit against the federal government based on the claim that the equalization program does not achieve its constitutional purpose. British Columbia and Saskatchewan decided to intervene in that court case to express their grievances about the current equalization formula.

[*Translation*]

Regardless of one's views on these developments, their very existence underscores the importance of the ongoing debate across Canada regarding the operation of the equalization program. In 1957, this program inevitably sparked controversy due to its complexity—which leaves ample room for political manipulation, with many half-truths or even outright lies circulating about equalization—its size, approximately \$27 billion in 2026–27, and its explicitly redistributive nature, since only provinces with fiscal capacity below the national average receive payments from the federal government.

Obviously, equalization is not the only federal transfer. The health transfer, for example, is much larger than equalization, and all provinces receive it on a per capita basis.

[*English*]

Though controversial, equalization is also a necessary policy instrument to reduce horizontal fiscal inequality among provinces and help less well off provinces offer quality public services to their population without any strings attached. This unconditional nature of equalization payments is consistent with provincial autonomy while reinforcing social citizenship and fiscal solidarity across the country.

Because equalization is both controversial and necessary, but also because of changing economic and fiscal circumstances, the equalization program must be reviewed on a regular basis. The current equalization formula was adopted during the early Harper years, based on the recommendations of the 2006 report of the expert panel on equalization and territorial formula financing.

• (0820)

[*Translation*]

It is time for the federal government to consider establishing a new expert panel on equalization to assess the current equalization formula and the program's effectiveness in light of current economic and fiscal conditions, while considering potential changes to the calculation of provincial fiscal capacity, as well as the possibility of taking provincial spending needs into account when calculating payments to receiving provinces, and even establishing a permanent independent commission to advise the federal government on these matters.

I can, of course, say more about this later during the question period.

[*English*]

Thank you very much.

The Vice-Chair (Jasraj Hallan): Thank you, Mr. Béland.

Next, we have William Robson from the C.D. Howe Institute.

You have five minutes.

William Robson (President Emeritus, C.D. Howe Institute): Thank you, everyone, for being here.

I hope my remarks and answers to your questions will help your work. I do look forward to the questions and will do my best to answer any related to specific federal programs and recent developments.

For an opening, I hope it will help to provide an overview that focuses on intergovernmental transfers over time and a bit of context for thinking about their appropriate size and structure in the future.

If you do find my remarks helpful, please give credit to my C.D. Howe Institute colleague Alexandre Laurin. He and I wrote a report on intergovernmental fiscal arrangements for the institute in 2015. We got invited to update that paper for *The Handbook of Canadian Public Administration* in 2018 and for the OECD in 2020. In the field of fiscal federalism, that's a "greatest hits" album.

That paper surveys the history of federal spending that was directly or indirectly funding activity in areas of provincial jurisdiction. I'll summarize it in four points.

First, amounts spent and raised by different levels of government in Canada have never coincided. The federal government has always raised more, and provincial, territorial and local governments less, than required for their own programs, so transfers from the federal to other governments have been a feature of Canadian fiscal policy since Confederation.

Second, these transfers were initially modest. They grew as the role of governments in providing services and redistributing income grew. If you look at the Department of Finance's fiscal reference tables, they show federal cash transfers, as recorded in the revenues of the provinces and territories, at about \$127 billion in the 2024-25 fiscal year. That is up enormously from a decade ago, but the federal government, of course, has been expanding quite rapidly in its spending since then. To put them in scale, the transfers shown in

the fiscal reference tables would be about a quarter of the spending of the federal government and about one-fifth of the revenues of the recipient governments. Those figures do not capture everything relevant to a discussion of the federal spending power, but they indicate that we are talking big and influential amounts.

Third, Canadians—and Professor Béland just gave us a taste of this—have been prominent commentators on fiscal federalism. Canadian economists, historians and political scientists have provided many insights about how to allocate taxing and spending powers and how to design intergovernmental transfers. This committee can draw on lots of Canadian expertise, as it is now doing, for theory about externalities and efficiencies of centralization of revenue and reconciling those with the merits of subsidiarity and different preferences across the country.

Fourth, notwithstanding those theories, the specific changes in federal-provincial transfers in Canada have been very much the products of particular circumstances. We've seen fiscal pressures in the 1930s on the provinces, and then the Second World War, and the federal government's debt problems in the 1990s. There have been political pressures: Health care has been a major story since the 1960s, and there have been differences in the enthusiasm of inhabitants of different provinces for federal encroachment on provincial jurisdiction.

I do not know of any insight from economists, historians or political scientists that dictates that the gap between revenue and spending at the federal and provincial levels should be as large as it is now or that the transfers that bridge it should be structured as they are now.

In the interest of time, I will close with two thoughts about forces that may affect federal spending in areas of provincial jurisdiction in the future.

First, we are probably transitioning from a period when fiscal policy felt unconstrained to a period of more constraint. The pressure of rising health care demands on provincial budgets is unrelenting. The federal government is facing rising interest costs and huge defence commitments, while feeble productivity growth constrains its ability to raise taxes.

Second, especially at a time of acute discontent in some provinces and regions, we should be conscious that different types of intergovernmental transfers can affect the efficiency, accountability and sustainability of public finances and major programs. The federal and provincial governments have access to essentially the same tax bases, and I think it would be good for the federation if the revenue-raising and spending powers of governments at each level were better aligned.

Thank you again for your attention and for the invitation to be with you. I look forward to your comments and your questions.

● (0825)

The Vice-Chair (Jasraj Hallan): Thank you, Mr. Robson.

Next, we have Robert Laplante.

You have five minutes.

[*Translation*]

Robert Laplante (Director, Institut de recherche en économie contemporaine): Good morning, everyone.

Thank you, Mr. Chair, for giving me this opportunity to share with you some of my thoughts on what, in my view and according to the conclusions of many experts, is undoubtedly the main driving force behind federal-provincial relations in Canadian federalism.

I will not revisit many of the points raised by Mr. Béland and Mr. Robson, who preceded me. I agree with them that not only is there an imbalance in the resources available to the Canadian government and the provincial governments, but also that this imbalance has fostered a certain degree of confusion since the adoption of the British North America Act.

This confusion has a major impact, not only on how parties operate, but also on the overall governance of the Canadian state, insofar as, over the decades, the various arrangements aimed at restoring a certain balance in the distribution of resources have consistently led to confusion about priorities. This confusion has a significant impact on the operation of government insofar as its departments, in step with the transformations of the political apparatus itself—meaning, in step with changes in the parties in power—will, in a sense, become the receptacles for these accumulated conflicts about priorities.

Over the years, program design has been particularly shaped by the various arrangements that must be made to operate. This competition between objectives means that program design is also reflected in the political debate on issues relating not only to the potential contradiction between priorities across different levels of government, but also to questions concerning what might be called the optimal use of public resources.

If we consider the overall volume of taxes collected, it is clear that not only the imbalance in revenues but also the mounting tensions surrounding the allocation of priorities mean that there is no overarching mechanism within the system to optimize the use of resources.

Equalization, in its latest form, may be a step in this direction. However, other methods of revenue distribution mean that the seeds of a growing fiscal imbalance are always present. Different governments will gradually, depending on their political platform, attempt to curb this expansion or attempt to stimulate it, to the extent that there will be a position on how to build the state within federalism.

● (0830)

This disparity in resources always gives the central government an advantage and inevitably fuels a push toward greater centralization and ongoing disputes with the provinces. The provinces often

complain about the federal government's ability to spend funds in various ways and impose obligations on them over which they have little control and on which their citizens have not necessarily had the opportunity to weigh in.

I would say that's—

[*English*]

The Vice-Chair (Jasraj Hallan): Thank you, Mr. Laplante. That's your time.

We'll open up the first round of questioning for six minutes.

We'll start with Mr. Kelly.

Pat Kelly (Calgary Crowfoot, CPC): Thank you, Mr. Chair.

I'm not sure who to start with. I think I'll start with Mr. Robson.

We heard all the witnesses talk about the distribution of revenue, outflows and inflows, that kind of thing. I think any discussion of equalization, which all witnesses touched on, ought to start with some clarity and understanding that this is really about one province's far outsized contribution financially to the equalization system and the ability of the federal government to spread money throughout the country, and that's Alberta.

There are various studies and statistics out there that suggest the net outflow is on the order of \$600 billion over the decades. Yes, there are other provinces that have contributed a net outflow to equalization. Saskatchewan currently does, and British Columbia and Ontario used to. In the federation, we're now in a situation where the province with nearly 40% of the population is a net recipient of equalization.

To what extent, when we're talking about equalization, are we really talking about Alberta funding the other provinces?

William Robson: It's in the nature of any equalization program that the provinces with greater fiscal capacity will transfer some of their resources to the provinces with less fiscal capacity. Alberta, to its credit, will probably continue, under whatever system we adopt, to be a net contributor in the way many other provinces will not.

Having said that, I do want to underline a point that's already been made by my fellow presenters. The formal equalization program is not necessarily the way we need to give expression to what section 36 of the Constitution says. In fact, you could do a very good job of equalizing resources among the provinces if the federal government were to collect money with the taxes it deploys, which are sensitive to income, and redistribute it on an equal per capita basis. Something of that sort happens with the Canada health and social transfers, but there are strings attached, particularly in the health transfer, and the equalization program ought not to have such strings attached.

I know I'm describing a very different system from what we now have, but when you look at how the formal equalization program has changed over time with various caps related to overall GDP and certain provisions put in place to make sure that certain provinces do not become equalization recipients when otherwise the formula would have made them eligible, I think it's fair to say that this program is not very fit for purpose.

I'll repeat what I said earlier: There's nothing in the logic of inter-governmental transfers or theories of federalism that dictates we should have the current set-up, so I think the equalization program is due for a revamp. It could be to the advantage of both the contributing provinces and also some of the recipient provinces, because there is a bit of a welfare wall clawback, as I'm sure members of this group know. When provinces take steps to increase their own revenues, they get penalized by the program. I think it would be worth looking at formulas that would not have that effect.

• (0835)

Daniel Béland: Can I add something?

Pat Kelly: Do it quickly. I want to follow up on a couple of his points.

Daniel Béland: I used to teach at the University of Calgary, and I lived in Alberta for almost seven years. I have studied Alberta politics. Many people in Alberta support the general principle of equalization. All Canadians and all taxpayers contribute to equalization—

Pat Kelly: Yes, thank you.

Daniel Béland: —but the thing is that Albertans want the system to be fair and transparent. That's where the issue is. It's not the principle of equalization per se. There is a possibility to have a real dialogue about how we can improve equalization in a way that's good for the entire country.

Pat Kelly: I'm sorry. I'm going to jump in and move on with my questions, but that is a great point. I can agree with the point that Albertans are generous and they do not object. They understand that the great wealth they have from the resources they extract ethically, sensibly and responsibly.... It's not that Albertans are opposed to sharing. What they are opposed to is a federal government that passes laws that penalize Alberta for its resources and prevent Albertans from extracting their resources.

On doorsteps, we didn't hear people complaining about equalization during the previous government, when the laws were not harming our industry. I heard many complaints about equalization on every one of my campaigns. I can assure you that this is a doorstep issue with voters in Alberta.

I don't know if I have the time for a follow-up question with Mr. Robson.

The Vice-Chair (Jasraj Hallan): Mr. Kelly, that's the time.

Pat Kelly: Thank you.

The Vice-Chair (Jasraj Hallan): Next, we have Mr. Leitão for six minutes.

[*Translation*]

Carlos Leitão (Marc-Aurèle-Fortin, Lib.): Good morning, gentlemen. Thank you for being here.

Mr. Béland, I'll start with you.

I would begin by saying that the equalization program is a federal revenue transfer program. Therefore, it is not provincial revenue that is being distributed. It is federal revenue that is being transferred. If the residents of a province have incomes above the Canadian average, more federal revenues will, of course, come from that province.

It's true that the equalization program changes, sometimes in ways that are a bit difficult to understand. I was involved in one of these negotiations in 2016–17, and indeed, this process can be extremely opaque. Perhaps you could elaborate on your thoughts based on where you were in those discussions. How could we make this program slightly more appropriate for the 21st century?

Daniel Béland: Yes, absolutely. Thank you for your question.

I think there is the governance aspect, which is often discussed less than the more technical aspects of the equalization formula, which is opaque. It is true that the vast majority of Canadians do not really understand how the formula works, and that is normal, because it is complicated.

Regarding the governance of equalization, therefore, first, I propose that we should establish a new expert committee, similar to the one we had in 2005. Paul Martin appointed five people to that expert panel, chaired by Al O'Brien, an economist from Alberta. There were four other members. They examined equalization and submitted a report in 2006, which was largely implemented by Steven Harper, a Conservative. I think we should undertake a similar exercise, but with a broader mandate.

I think what Mr. Robson said is very important. The important thing about the equalization program is not the program itself. It is the principle. When we talk about fiscal imbalance, we are talking about vertical imbalance, but also horizontal imbalance—that is, inequalities between the provinces, connected in large part, as was mentioned earlier, to the distribution of natural resources across the country.

So, the first step is to say that we are going to look at all the options. How can we achieve equalization, but perhaps not with the formula or even the program we have right now?

Opening that up is always dangerous, in a way. Politically speaking, there's always a risk. That is why the federal government, over the past 20 years, has not wanted to amend the equalization formula again. However, we could ask these experts, these economists, perhaps former civil servants, to look into the issue of horizontal imbalance, but in relation to vertical imbalance, to try to see how we can adopt a more transparent system. For example, I mentioned earlier the idea of not only taking into account the provinces' fiscal capacity, but also the potential cost of services provided in the provinces, while considering factors such as demographic aging and population density, among others. This is what is done in countries like Australia, for instance. So, there are steps to be taken regarding equalization.

I know you want to speak, so I will stop here, but I could tell you much more, and I could send you documents as well. I'd be more than happy to do so.

• (0840)

Carlos Leitão: I would appreciate that. Our time is somewhat limited.

[*English*]

Mr. Robson, I'll turn to you quickly because time is running out. I'm sorry. Maybe in the next round we'll have time to discuss that further with you.

What do you think of Mr. Béland's idea of creating an independent commission or an independent group to manage equalization?

William Robson: I think there's a lot of merit to that. It's been successful in the past. I would like to see a mandate for such a group include a mandate for simplification.

I used to teach equalization to a public finance class. I'm glad I do not anymore. It has gotten very much harder to explain what is going on with that program.

I'll simply say again—you're a former finance minister so you know this, but I'll just underline the point—that if you tax according to the ability to provide revenue and then you distribute equally per capita—and maybe you could have an extra amount for the population over age 65 or over age 70, which is something I've also written on in the past—I think that makes sense. Make it simple. It can't be so complicated that people distrust it, and it can't be so complicated that there's a lot of gamesmanship going on and playing the system in order to get a little bit more for your province. That's effort wasted that could be put to much better use.

Carlos Leitão: Thank you.

To finish, I want to thank you for all your work at the C.D. Howe Institute. I think you've now moved on to another role there. I want to thank you for the good work you did there.

William Robson: Thank you.

The Vice-Chair (Jasraj Hallan): Thank you, Mr. Leitão.

Next, we have Mr. Garon for six minutes.

[*Translation*]

Jean-Denis Garon (Mirabel, BQ): Thank you, Mr. Chair.

I would like to thank the witnesses.

We always thank the witnesses for joining us at the committee, but this is our second meeting on the federal spending power, and at the last meeting, not a single witness knew what this power was. This was also true of some members on the other side. Today, I am pleased because we are right on topic. That makes me very happy.

Mr. Laplante, there is a vertical fiscal imbalance. The federal government has more revenue than it needs for its current expenditures and its strict constitutional responsibilities. The opposite is true for the provinces. Some people deny there is such a thing as a vertical fiscal imbalance and suggest that if Quebecers are short on money, the Quebec government should raise its taxes.

What do you think of that? Is this denialist rhetoric? Or is this fiscal imbalance a real institutional problem within the current framework of transfers and responsibilities?

Robert Laplante: There is no doubt in my mind: This is a real problem.

Quebec already has several investigative reports on the subject, including from the well-known commission on fiscal imbalance, which operated from the late 1990s to the early 2000s and was headed by Mr. Séguin, who did a remarkable job.

This imbalance must be considered from two angles when it comes to governance. A technical approach uses a per capita calculation and the age pyramid to determine methods of resource distribution. Numerous parameters can be used—

• (0845)

Jean-Denis Garon: I apologize for interrupting, but we're running out of time.

Generally speaking, you agree that there is a fiscal imbalance and that we cannot just raise our taxes by 10% tomorrow morning without causing considerable damage to our economy.

Robert Laplante: That goes without saying, of course, because what's really at stake behind the debate over whether to raise taxes is the discussion about goals. We share resources, but we have to ask ourselves for what purpose.

Jean-Denis Garon: I will come back to that. I had cited the famous quote made in 1996 by Liberal Treasury Board president Marcel Massé, back when Ottawa had consolidated transfers as part of its efforts to reduce the deficit. It had created the CHST, the Canada Health and Social Transfer. We don't like acronyms, and we like this one even less.

After that, it made cuts, which somewhat forced the Quebec government to end the shift toward outpatient care and cut health care services. The Treasury Board president said, “When Bouchard has to make cuts, Ottawa will be able to demonstrate that we have the means to safeguard the future of social programs”—with a nice maple leaf at the top. The last part of that quote is my own, of course. It's my interpretation, but it's faithful to what the Treasury Board president said.

I'd like to know if you think the federal government is using its spending power to interfere in the political affairs of the provinces.

From a democratic standpoint, what is the problem? Does a voter who is not receiving adequate health care know which government to punish and in which election?

Robert Laplante: There is a real democratic deficit surrounding these various revenue-sharing formulas. When we speak of a lack of transparency, we are referring to the difficulty citizens have understanding how revenue-sharing is done; it is clear that they find it very difficult to draw conclusions about the desirable, intended or undesirable effects of this revenue-sharing.

The federal government, in its decisions, may disregard the trade-offs made by a province or between provinces and implement programs whose objectives are not even debated within the provinces. In the case of Quebec, this is a rather frequent occurrence. This happened with early childhood programs. We see it in the dental care program. We—

Jean-Denis Garon: We can revisit the list, because it can be quite long—

Robert Laplante: Indeed, it can be.

Jean-Denis Garon: You're getting a little ahead of me. There are various ways to address the issue of the vertical fiscal imbalance, but let's say we group them into two broad categories.

One involves Ottawa systematically increasing the number of conditional funding agreements. It is the federal government that tells the provinces they cannot legislate in a particular area of jurisdiction, but that they will not receive funding if they do not do as it wishes. However, over time, we could also have formalized and improved the payment of unconditional transfers. The Canada Health Transfer is not unconditional, but it is, let's say, less bad than many other new programs that have been instituted.

In your opinion, which direction has the federal government taken in recent years between these two options. Is this a problem or a solution?

Robert Laplante: I believe the federal government is acting in an increasingly unilateral manner. Furthermore, it may show interest in initiatives being implemented in one province or another. However, once it has drawn its conclusions, it is not interested in engaging in dialogue on the matter.

From this perspective, if there were an expert panel—as was mentioned earlier—it must have the mandate to examine the effects of the revenue-sharing formula on governance. That is extremely important. What are—

[*English*]

The Vice-Chair (Jasraj Hallan): Thank you. That's the round.

Next, we have Ms. Cobena for five minutes.

Sandra Cobena (Newmarket—Aurora, CPC): Thank you, Chair.

My questions are for Mr. Robson.

Mr. Robson, I'm sure you know that the government has announced a sovereign wealth fund, which will be funded through the issuance of debt, and it actually invites the public to also invest in this fund. We also know that the government has a history of rough investment decisions.

For the benefit of the Canadian public, could you explain what generally happens to investors when investments go bad in a fund like that, and particularly when investors have borrowed money?

● (0850)

William Robson: I have concerns about what the federal government is doing with its balance sheet generally, and the sovereign wealth fund would be one more log on that fire, if that's a metaphor people will accept.

The federal government is borrowing new money, and if you look again at the fiscal reference tables, you'll see that the average interest rate on its debt is about 3% now. The return on investments that it is getting on its financial assets is lower than that. On the face of it right now, the federal government is borrowing and is paying interest at a higher rate than the returns on the investments it is making.

I am concerned that the same thing will happen with the sovereign wealth fund. I do not like to see the federal government's gross debt going up the way it is, because it's creating exposure. We see it in the interest payments, but there are also things going on, I think, with these investments and transfers that really ought to show in spending as opposed to the appearance of the federal government building up assets. I would like to see the federal government do less of that.

Sandra Cobena: Of course, we have seen similar spending by government in the past, in the 1990s. Can you describe to the committee what happened to Canadians' quality of life when this experiment was tried last time?

William Robson: The federal government has certain types of financial assets and investments in certain Crown corporations, such as the Bank of Canada, that are quite appropriate to the machinery of government, but I do not think the public sector has a very good track record of making financial investments. This is not the same as investing in hard infrastructure, such as ports, airports and so on, which governments can uniquely undertake. Perhaps it's time to unload some of those assets. Those are the types of investments that I think people usually have in mind when they think about things the public sector is uniquely able to do.

I do worry, as other people do, that when you have investment funds with unclear mandates—a mixture of financial return and nation building, regional development and that type of thing—you're going to end up making decisions that are not economically guided.

I worry about the expansion of the federal government's balance sheet. I would worry about that if it was occurring at the provincial level as well. I think it makes the public finances more risky and more opaque than they would otherwise be.

Sandra Cobena: Earlier this year, you authored an article titled "Ottawa's fiscal guardrail is driving us toward the cliff". Can you explain to the committee the essence of the article and why you titled it that?

William Robson: I admit that the guardrail terminology was a bit of a hook. We had that terminology come and go earlier in this decade. It inspired a bit of ridicule at the time because it didn't appear that guardrails were really any kind of effective constraint against the government doing what it wanted to do on a year-by-year or every-six-months basis.

The latest fiscal update seems to confirm that the federal government, when it gets an extra revenue dollar beyond what it was expecting in its fiscal projections, immediately increases spending. The difficulty with increasing spending is that when you do it this year, the program that you increased is likely to develop a constituency and the spending will continue in years to come.

If the implicit fiscal rule is that you will spend every revenue dollar, then we are not going to get to a situation where the budget is balanced. We are not going to get to a situation where the federal government's debt is declining as a share of GDP, which it has said in the past it would like to do.

The behaviour we're seeing is not consistent with prudent fiscal policy.

Sandra Cobena: This is timely, because we are seeing that the Liberal government has abandoned its fiscal guardrails entirely.

Can you explain the significance of this abandonment and describe what must be done to return fiscal sanity to the country's budget?

The Vice-Chair (Jasraj Hallan): That's the time. You'll have time to answer in the next round.

Next, we have Mr. Sawatzky for five minutes.

• (0855)

Jake Sawatzky (New Westminster—Burnaby—Maillardville, Lib.): Thank you to the witnesses for coming today.

Professor Béland, I have a few questions for you. Thank you very much for your opening remarks.

Much of the discussion of fiscal policy focuses on the total amount of government spending. The recent budget, in 2025, emphasized not just the level of spending, but also the quantity and quality of that spending.

In your view, how important is it to distinguish between the quantity of federal spending and the quality or effectiveness of that spending when evaluating fiscal policy?

Daniel Béland: It depends on how you define quality. I think experts will not necessarily agree on how to define quality.

When we talk about emphasizing the importance of, say, investing in the economic future of the country, I think it's a good idea to emphasize forms of spending that go in that direction, but the proof is in the pudding. Sometimes we can define something as an investment, but we don't know yet whether it will actually be good in the end and whether it will actually generate returns the way the government might anticipate.

It's important to not just look at the budget, but monitor over time how these investments are actually working on the ground and whether they have worked in the future—three, five or 10 years down the road. It's not just about the budget itself. We should evaluate the effectiveness of the measures and the investments we make over time in a systematic way. We don't always do that.

Jake Sawatzky: Thank you.

Would you consider investments in areas like skills training, housing supply or productivity superdeductions as examples of spending that can strengthen the economy and improve fiscal outcomes over time?

Daniel Béland: They might. Again, the devil is in the details. It's not just about what's in the budget. It's about how these measures are implemented. That's why implementation is really crucial and something that needs to be monitored in a systematic way. Budgets are incremental in nature. They change, but there's quite a bit of consistency over time, from year to year. If we want to be more effective with our own investments, we need to report back to Canadians on how these investments have fared. We need to measure exactly their impacts over time and see if we want to continue in that direction or invest in different ways.

The proof is in the pudding. We need to measure this over time.

Jake Sawatzky: Thank you.

I have another question.

A recent analysis by the International Monetary Fund indicated that Canada remains in a relatively strong position compared with G7 partners, particularly in terms of debt sustainability and fiscal capacity. How significant is it that an independent institution like the IMF continues to assess Canada as being in one of the stronger fiscal positions among its peers?

Daniel Béland: Look, I think there's a doomsday discourse, sometimes, about the fiscal position of Canada. We are in a much better position now than we were in, say, the early or mid-1990s. I think one of your colleagues mentioned earlier what happened in 1995-96. We are in a different position. We're in a stronger position, but things can change really rapidly in terms of the economy. We know the uncertainties regarding the trade war with the United States and other things.

We have to be prudent about our forecasts, of course, and the way we manage both expenditures and revenue raising. It's important to understand and to emphasize that controlling spending is important, but we also have to think about the revenue side and how to review tax expenditures that might be regressive and not necessarily that helpful. That's a form of spending, indirectly—tax expenditures and tax credits that might not be so useful from a broader standpoint.

Also, think about how we can generate more revenue. Don't just focus on controlling spending. Focus, also, on increasing revenues. A former U.S. Supreme Court justice said that taxes are the price we pay for civilized society. Of course, today, "civilized society" may sound a bit outdated as language, but we have to understand that taxation, including progressive taxation, is an important part of the mix.

● (0900)

The Vice-Chair (Jasraj Hallan): Thank you. That's time.

Next, for two and a half minutes, we have Monsieur Garon.

[*Translation*]

Jean-Denis Garon: Thank you, Mr. Chair.

It will be nice to get back to the topic of today's study.

Mr. Laplante, I get the impression that, in Canadian history in general, the federal government has, intentionally or unintentionally, taken advantage of crises to—with the provinces' consent—centralize unemployment insurance at one point, centralize part of natural resource policy through the national energy program at another, impose more conditions in the 1990s, and impose new programs linked to the federal spending authority during the pandemic.

Currently, in the crisis stemming from tariffs, we see the federal government interfering in workforce training, albeit delicately, by taking the necessary detours, but it remains, in principle, interference.

Do you believe that, generally speaking, crises have benefited centralization? After such crises, does the federal government tend to return to its natural role or to retain the powers it assumed during the crises?

Robert Laplante: Not only have crises encouraged centralization and increased or expanded the federal government's role, they've also sedimented these gains, decade after decade.

Jean-Denis Garon: What do you mean by "sedimented"?

Robert Laplante: What I see, for example, is that interventions made for reasons of urgency, to find short-term solutions, are perpetuated and established.

Bill C-5 will do just that. It'll give the federal government free rein to intervene in the construction of infrastructure, to change or delay regulatory differences around environmental issues, impact studies and so on.

All the arguments made to justify urgency are really instruments to allow a purpose defined by the federal government to become an imposed purpose.

[*English*]

The Vice-Chair (Jasraj Hallan): Thank you. That's the time.

Next, we have Mr. McLean for five minutes.

Greg McLean (Calgary Centre, CPC): Thank you, Mr. Chair.

My first question will be for Mr. Robson.

When you talk about fiscal capacity, Alberta was a recipient of the federal equalization program once—in 1964, over 60 years ago. Since that time, there has been over \$600 billion in fiscal transfers between Alberta and the rest of the country—\$600 billion over about 60 years. That included periods when Alberta was suffering far worse than the rest of the country in terms of unemployment and the deficits it was incurring to deliver services to its citizens, and yet the transfer of funds never ceased from Alberta to the rest of the country.

Do you consider it a fair equalization system when even one of the suffering provinces doesn't get money back to serve its citizens and support its social services?

William Robson: Given that I've commented on the equalization program explicitly already, perhaps I could address some of the other programs on which Alberta would be on the negative side of the ledger.

I can understand the logic of provinces that receive the Canada health transfer and therefore have more money to spend on health care than they would have if they were relying only on their own resources, and are therefore willing to accept the federal government's limitations on how they can run their health care system—even when the federal government is requiring them to do things their population would prefer them not to do. It's a lot harder to understand the logic of a province that is a net loser from a system like that and is simultaneously both being made poorer as a result of the net transfers going out of the province and being told by the federal government how it can and cannot run its health care system.

One of the things I think would be very helpful for us as we think about fiscal federalism is to look at the ways in which the federal government is using its spending power to distort provincial priorities. I think we can logically separate those two things from the net flows of funds. I don't quarrel with what you've said about the net flows out of Alberta, but I think it makes sense to look particularly at the programs where, as I said, the federal government is taking money away from a province on a net basis and simultaneously constraining the province's policy choices in ways the province does not like.

I understand, again—

● (0905)

Greg McLean: Mr. Robson, thank you. We have limited time, but I appreciate your response.

Let me move to Mr. Béland, because he did talk about the system.

I appreciate the time you spent in Alberta and your understanding of what people are looking for there. You said that people, Albertans in particular, “want the system to be fair and transparent.” Many Albertans feel it is not right now. They feel it needs to change so that we can actually see what the inputs and output are and what determines how the transfers happen between the provinces.

Can you give us some examples about how that could be better done, how it's failing Canadians right now and how it could be more transparent and fair?

Daniel Béland: I've been writing about that for a long time with my colleague André Lecours, from the University of Ottawa. I can send you some documents about it.

I think that having a permanent arm's-length commission that will make recommendations to Parliament on equalization payments on a regular basis would be more transparent. It's something they do in other countries, such as Australia. They will report every year on how they calculate equalization payments and the choices they make. Between these reports, they will go across the country and consult with provinces about their fiscal needs and their perspectives, as well as with business groups and other civil society actors. I think—

Greg McLean: I'm sorry, Mr. Béland, but I have to interrupt you because you're not getting to the specifics we need here right now.

Let me go back to Mr. Robson.

Mr. Robson, you talked about the fact you that you were a professor who taught about equalization and that it's become so complex that you can't even teach it anymore, because it doesn't make sense—if I can paraphrase what you said here. You talked about the level of gamesmanship played by the different levels of government—and I presume that's the federal government and different governments that use certain input mechanisms to make sure they continue to profit from the system—and you said that it impacts the trust that Canadians feel in the system.

Can you tell us about the impacts on a country of citizens losing trust in the system?

William Robson: Well, it's clear that one thing that particularly bothers people is the feeling that they're being taken advantage of. There have been a few references to that over the course of this conversation.

When you look at the original structure of the equalization program—

The Vice-Chair (Jasraj Hallan): The time is up.

Closing off this round, we have Mr. Lavoie for five minutes.

[Translation]

Steeve Lavoie (Beauport—Limouilou, Lib.): Thank you, Mr. Chair. Thank you to the witnesses for joining us today.

When we prepare for our meetings, as we did this morning, we often prepare a lot of questions to ask, and things often evolve over the course of our discussions.

My first question is for Mr. Béland. I'd like to go back to equalization. Let me play devil's advocate. You'll see where I'm going with this, and you'll help me.

In my former life, I often witnessed situations where systems had not evolved and no longer seemed adapted to the current reality or to meet needs. I also heard a witness say that, if we're going to do it, everything should be simplified.

At first glance, the suggestion of consulting experts and changing everything is appealing. However, based on what I've experienced and found out, new systems often create new problems that don't solve the situation, but make it worse. How can we have a full guarantee, even if nothing's guaranteed, that conducting studies to change all that will improve the situation? Do you think there are any guarantees to using a group of experts to study the situation and make changes, and will things be better?

That's my question and I look forward to your answer. Thank you, Mr. Béland.

Daniel Béland: You're right to say that every change to equalization will necessarily bring a certain level of controversy. We saw it in 2006. You may remember Danny Williams, from Newfoundland, who rose against the formula. In Saskatchewan as well, the NDP government wasn't too happy with certain aspects of the changes to equalization.

I think that's the mandate we would give this group of experts. It has to be broad so that, instead of just trying something or gradually changing the system, we can really look at all the possibilities based on the Constitution, and make general proposals on various possibilities, even some that might go beyond the equalization program we're familiar with. Rather than just changing the formula, it would be a matter of telling people what the possibilities are. There are three or four options, the group could obviously recommend one, but it would be up to the government and Parliament to decide. However, it has to be a transparent process and experts have to take their time and really look at what's being done elsewhere.

We're often too “provincial”. I apologize for using that word because it might have a different meaning in Canada, but I think there are countries where things are done in a more effective or transparent manner than here. We have to look at what's being done in Switzerland or Australia, among others, and produce a real document accessible to all Canadians so we can take a step back and think. This is an extremely political issue. When we talk about money, it's obviously always very political.

• (0910)

Steeve Lavoie: Absolutely. As I said when I was talking about guarantees, we can never guarantee everything, but we don't want to open Pandora's box. You talked about the Constitution, but aside from that, what objectives or guidelines would you put in place to make sure things work?

Opening Pandora's box can send us in any direction without necessarily making things better. What safeguards would you put in place, or what goals would need to be achieved to make sure things are going in the right direction?

Daniel Béland: First, because this issue always makes provinces anxious, especially those that receive equalization, we could say the new system won't penalize any of them. Obviously, that can create constraints for the experts working on this, but it can also reassure a lot of people, since most provinces currently receive equalization. Based on that, we can still be very creative, do a lot to improve the program, without necessarily making many Canadian provinces anxious.

Steeve Lavoie: In closing, do you have any tangible ideas? There are only a few seconds left.

Daniel Béland: I talked about considering an equalization system where the costs of services are based on demographic factors, such as population aging or density, and not just fiscal capacity.

Steeve Lavoie: Thank you very much.

[English]

The Vice-Chair (Jasraj Hallan): Thank you. That's the end of this panel. I want to thank all the witnesses for being here.

We'll suspend for a few minutes to welcome the next witnesses.

• (0910) _____ (Pause) _____

• (0915)

The Vice-Chair (Jasraj Hallan): Welcome back, colleagues. We'll resume the meeting.

I would like to welcome our witnesses.

I'd like to remind participants of the following points. Just wait for me to call your name before you speak, and I remind you that all comments should be addressed through the chair.

Witnesses, you'll have five minutes for your opening remarks, after which we will open the floor to questions.

We have officials from the Department of Finance.

You have five minutes for your opening remarks.

Galen Countryman (Director General, Federal-Provincial Relations and Social Policy Branch, Department of Finance): Good morning. My name is Galen Countryman. I'm the director general of the federal-provincial relations division at Finance Canada.

I am joined today by my colleagues Thomas Larouche, director general, budget and government operations; Nelson Paterson, director general, economic studies and policy analysis; and Suzanne Kennedy, senior director, equalization and territorial formula financing policy.

[Translation]

The branch is responsible for the administration and oversight of Canada's four major transfer programs: the Canada health transfer, the Canada social transfer, the equalization program and the territorial formula financing.

[English]

In 2026-27, these major transfers will total \$108.3 billion. Together, the major transfers represent one of the largest expenditure envelopes in the federal budget.

[Translation]

They are designed to provide predictable, stable and equitable funding across jurisdictions.

Major transfers are largely unconditional. I will specify the potential conditions for each of them individually.

[English]

Provinces and territories are accountable to their electorates regarding how they decide to use the funds. The Federal-Provincial Fiscal Arrangements Act and its regulations set out the specific methodologies, formulas and data requirements for calculating the various payments under the major transfer programs.

[Translation]

The Canada health transfer, or CHT, provides predictable long-term funding for health care and supports the principles of the Canada Health Act.

In 2026-27, CHT payments will total \$57.4 billion. CHT payments are allocated on an equal per capita basis. The CHT has a growth guarantee of at least 5% annually until 2027-28. Starting in 2028-29, CHT growth will return to a three-year moving average of nominal gross domestic product growth, with funding guaranteed to increase by at least 3% per year.

The Canada social transfer, or CST, aims to support three broad areas of social programs: post-secondary education, social assistance and social services, as well as early childhood development and early learning and child care.

[English]

The CST is provided to provinces and territories on a largely unconditional basis, with the exception of a minimum residency requirement for the provision of social assistance.

In 2026-27, the CST will total \$17.9 billion. Like the CHT, the CST is allocated on an equal per capita basis, and CST funding is legislated to grow by 3% annually.

[Translation]

The federal government's equalization program deals with fiscal disparities between provinces. The principle behind equalization payments is to provide provincial governments with sufficient revenues to provide reasonably comparable levels of public services and taxation.

In 2026-27, equalization payments will total \$27.2 billion. Equalization payments are unconditional. Recipient provinces can use them at their discretion according to their own priorities.

The current formula is largely based on recommendations from the 2006 report of the Expert Panel on Equalization and Territorial Formula Financing. Payments for the entire program increase every year based on the three-year moving average of nominal gross domestic product growth.

● (0920)

[English]

Territorial formula financing, or TFF, is an unconditional transfer from the Government of Canada to the three territorial governments to enable them to provide their residents with a range of public services comparable to those offered by provincial governments at comparable levels of taxation. In 2026-27, TFF will total \$5.8 billion. The current formula is largely based on recommendations from the 2006 report from the expert panel on equalization and territorial formula financing.

In addition to the major transfers, the division also manages the fiscal stabilization program and statutory subsidies. The fiscal stabilization program provides financial assistance to provinces that are facing significant year-over-year declines in their revenues resulting from extraordinary economic downturns. Statutory subsidies are provided as a result of how Canada developed as a federation. Most were legislated at the time of Confederation or when a province joined Canada. In 2026-27, they will total \$45 million.

As well, the federal government provides a range of transfers to provinces and territories to address specific issues.

[Translation]

Transfers can come with conditions and reporting requirements designed, administered and overseen by the appropriate department. Some examples include early learning and child care, labour market transfers administered by Employment and Social Development Canada, targeted funding administered by Health Canada—

[English]

The Vice-Chair (Jasraj Hallan): Thank you, Mr. Countryman. That's five minutes.

We'll start our first round.

We have Mr. McLean for six minutes.

Greg McLean: Officials, welcome. Thank you for coming today.

This goes to the heart of what we're talking about in the equalization problem we have in the country, and I say that because it is a problem. Let's look at the way you actually calculate equalization. You calculate it, as you said, with reasonable levels of services at

reasonable levels of taxation. When you determine that formula, you go toward the median or the mean, as the case may be, and you determine that effectively one province that might have lower taxation gets a larger economy. This is the thing that happens here. A province with a higher level of taxation doesn't have as much of an economy, and therefore doesn't have as much corporate or personal income tax revenue coming in to pay for their services, whereas the lower-tax province actually has a higher labour force participation and a higher taxation revenue as a result.

To erase that with an equalization system that says, okay, this would be the amount of taxes you pay based on the economy you actually have at this point in time, and you transfer that around, as if you could just do that.... The problem is that if you had a higher level of taxation in those low-tax provinces, you wouldn't have that much tax revenue. You wouldn't have that much economy. You wouldn't have that level of labour participation.

Do you see the circular contradiction you're going through in even determining the formula that way?

Galen Countryman: I'll take a stab at it, and maybe Suzanne will want to add more.

The equalization program's calculation of fiscal capacity is based on national average tax rates. We tried to abstract away from individual taxation practices in provinces and territories, and we try to reflect what they do globally across the country. Each one is based on the national average tax rate based on a measure of their tax base.

Greg McLean: That's exactly my point. It's a national average tax rate. If you have a lower tax rate, you will have more economy. You don't adjust the reduction that you would have in your economy if you actually moved that forward and said, okay, if this economy here, from which you're transferring funds to other jurisdictions, had that higher tax rate, they would have less economy. Effectively, what you're doing is penalizing the low-tax provinces, which have more economy and more taxation revenue as a result, and subsidizing the higher-tax provinces and their economies because they won't make that adjustment. It's the Laffer curve. The more you tax, the less economy you have, yet you're not adjusting for that at all in your formulation.

● (0925)

Galen Countryman: I think what we're trying to do is reflect what the actual taxation practices are across the country.

Greg McLean: You're not going to have any consideration for the fact that if you had a higher taxation revenue as an average when you're figuring out this formula, you would actually have lower tax revenues in those provinces you're applying that to. There's no consideration for that whatsoever.

Galen Countryman: There's no consideration for that in the formula that's currently there.

Greg McLean: Do you think there should be?

Galen Countryman: As I mentioned, we are basing the formula on the expert panel that made recommendations in 2006.

Greg McLean: In 2006, they made that expert panel. Was there anybody thinking about the economic destruction that would happen if you had a higher tax rate in the low-tax provinces and how much you would penalize the economy in that scenario? Are you penalizing the lower-tax provinces because they have more economy as a result of having lower provincial taxes?

Galen Countryman: There have been different formulations, but, broadly speaking, it has been based on national average tax rates since—

Greg McLean: We've already established the national average tax rate that you're talking about here. My question is very specific. If you had a higher tax rate in those low-tax provinces, would you have as much tax revenue to spread around?

Galen Countryman: I don't know. I don't have the answer to that.

Greg McLean: Well, I do. The fact is that it's called.... You know as well, if you've done some economic studies, that you will have lower tax revenue if you have higher taxes. This is proven in many economic studies. The more you raise corporate tax and the more you raise personal taxes, you reach a point where you're penalizing people, and the economy is not expanding. What you're doing with this average formula is penalizing the lower-tax provinces and saying, "It doesn't matter how much lower you make your taxes. We're going to adjust it as if you had the average tax rate across the country, and we're going to spread that benefit around the country."

Do you see the point? Do you see the actual frustration of growing an economy in some of the provinces in Canada and having to distribute that wealth to the provinces that aren't making that adjustment and aren't growing their economies?

Galen Countryman: Again, this is what the formula currently is. This is how it's been since 1957, broadly speaking.

Greg McLean: I appreciate that you're stonewalling. The issue I'm asking you about, again and again, is this. If you're going to grow an economy, are you going to...? Take a high-tax jurisdiction. If they're going to lower their taxes to induce economic activity, they will see the result being that they get less in transfers. Do you think that's something that slows them down from making the changes they need to make in the regional economies in order to grow the economy, grow their employment and grow their fiscal revenue at those low tax levels, as opposed to just taking the money that the federal government is going to redistribute to them at the end anyway?

Galen Countryman: I think that would be a question for a provincial government when they make the decision as to whether higher economic growth and higher employment, as you say—

The Vice-Chair (Jasraj Hallan): That's time.

Next, we have Mr. Leitão for six minutes.

Carlos Leitão: Thank you very much.

Thank you for being here.

I think we've said this before, but all federal transfer programs are a transfer of federal revenue. There is one federal tax rate, which is the same across the country. A citizen in Quebec and a citizen in Alberta, if they have the same income, pay the same income tax to the federal government. It's a transfer of federal revenues, not of provincial revenues.

Now, we heard from the previous panel that it might be a good time to perhaps rethink not just the way we calculate the current transfer formulas but the elements that enter into that calculation. One example that was mentioned—I think both Mr. Robson and Mr. Béland were pointing in that direction—was that one of the fastest-growing areas of government spending in Canada is health care and that perhaps we have to devise a new way of assisting the provinces in getting sufficient financial resources to provide reasonably equivalent services.

Is there any kind of work being done at Finance in rethinking how we should improve the federal transfer system, particularly as it concerns health care?

• (0930)

Galen Countryman: On health care, the main transfer program is the Canada health transfer. It is provided on an equal per capita basis. It is to grow at 5% until 2027-28, and after that it will grow at the GDP escalator. That is the current policy right now. I can't speak to whether the government will make any changes to that.

Carlos Leitão: I understand. That is the current policy right now, but other elements.... For example, there's the different demographic make-up of different regions of the country, which would probably point to costs rising faster in some provinces than in other provinces. Should we try to capture that in the new and improved formula, or is that something that will be coming to you from the political side, politicians, with committee members and the government saying, "Okay, we'll do this", and then you would implement it?

However, my question was, were you already doing some work on how we address this widening demographic difference between east and west?

The Vice-Chair (Jasraj Hallan): Mr. Countryman, I have paused the time. Is it possible for you to move the mic closer to you? I think some of the people on Zoom are having some difficulty hearing, and the interpreters are as well. Could you speak just a little bit louder for the translators?

Thank you. We'll continue the time.

Galen Countryman: To respond to the question on health care, the Canada health transfer is currently allocated on a per capita basis, as you know. If you were to adopt a different allocation method within that and keep the same funding level, you would be changing allocations, so some provinces would gain and some provinces would lose.

That's about all I can say right now.

Carlos Leitão: I understand, but I'm sure my colleague Jake, for example, consumes fewer health care services than I do, just because of the fact that he's a little younger than I am.

Moving on from that, it was also mentioned that perhaps we should consider having an independent commission, an independent body, that would monitor the evolution of federal transfers on an ongoing basis. Do you have a view on that?

Galen Countryman: I'm aware that Monsieur Béland and others have had that view.

The transfers, as I mentioned, are all legislated. Everything about the four major transfers that we administer is set out in the Federal-Provincial Fiscal Arrangements Act, down to the letter, so we just implement what Parliament has told us to do.

The amounts are posted every year. Provinces, at least the officials, understand very well how those calculations are done. We share the calculation workbooks with the Library of Parliament, the Parliamentary Budget Officer and any academic who asks for them—or with anyone, actually. They're available. The historical data is all out there. We post the payments when they're made. They're all available on the Finance website.

That's how we see it. In terms of the commission, we had an expert panel in 2006 provide its views.

Carlos Leitão: Okay, that was 20 years ago. It might be time to do another one now, but, again, I understand it would be up to us to make that decision.

I have just one final question. You also mentioned this. Perhaps it is not very well known publicly, but there is also a federal fiscal stabilization payment. Perhaps in the time we have left, you could just talk a little bit about that.

The Vice-Chair (Jasraj Hallan): You'll have to wait until your next round.

Next, we have Mr. Garon for six minutes.

[*Translation*]

Jean-Denis Garon: Thank you, Mr. Chair.

I'd like to welcome the witnesses from the Department of Finance. I thank them for joining us.

Mr. Countryman, I'd like you to confirm that Canada's equalization program is a spending program funded by the federal government's consolidated revenue fund.

• (0935)

[*English*]

Galen Countryman: If the question was whether equalization comes out of the consolidated revenue fund, the answer is yes.

[*Translation*]

Jean-Denis Garon: Thank you.

Do you know approximately how much Quebec taxpayers contribute to the federal government's revenue?

Galen Countryman: I don't have that information.

Jean-Denis Garon: To continue the conversation, let's say Quebec individuals and corporations contribute 20% of the federal government's revenue. That would mean Quebecers would pay for 20% of the equalization payments the province receives. Do you agree?

Galen Countryman: Equalization payments are made using the federal government's revenues, meaning the revenues come from across the country.

Jean-Denis Garon: That's excellent.

That would mean if, let's say, 20% of federal government revenues came from Alberta, 80% of funds used in equalization payments paid to Quebec would come from provinces other than Alberta, and possibly from provinces receiving equalization payments.

Does that make sense?

Galen Countryman: Yes. We simply look at what we spend for the provinces and calculate it at the federal level.

Jean-Denis Garon: What I'm trying to get at is there are, I believe, seven provinces receiving equalization payments. The money used to make those payments comes from the federal government's consolidated revenue fund, to which all provinces and territories contribute. This means not only do Quebecers make 20% of their own equalization payments, it also means the vast majority of equalization payments some provinces receive are actually paid by those provinces. That's what I was trying to say.

Do you have access, at the Department of Finance, to a list of all the transfer programs, tax expenditures and tax credits paid to individuals and provincial governments that relate to areas of exclusive provincial or shared jurisdiction? If so, is it possible to provide it in writing to the committee? If not, is it possible to prepare such a list?

Galen Countryman: We don't have such a list.

Jean-Denis Garon: Would it be possible for the Department of Finance to prepare such a list and send it to the committee, please?

Galen Countryman: It depends. It's a matter of jurisdiction. Some areas of jurisdiction are shared.

Jean-Denis Garon: That's fine. You can tell us which jurisdictions are provincial and which ones are shared. Then, we'll follow up with the clerk to see if it is possible to do so. I'll also talk to the Finance Minister.

I'd like you to confirm that the Canada health transfer, which is made to the provinces and relates to an area of exclusive provincial jurisdiction, comes with conditions under the Canada Health Act.

Galen Countryman: Yes, you have to abide by the conditions of the Canada Health Act.

Jean-Denis Garon: This means the federal government is imposing conditions on an area of jurisdiction where it does not have the right to legislate, based on the Constitution.

Can you confirm the Canada social transfer also comes with conditions imposed on provinces in their own areas of jurisdiction?

[English]

Galen Countryman: The condition concerning the Canada social transfer is the minimum residency requirement for social assistance.

[Translation]

Jean-Denis Garon: We understand it's for social assistance, an area of exclusive provincial jurisdiction. To receive the transfer, the province must comply with conditions imposed by the federal government.

In your opinion, is it okay, appropriate or desirable for the federal government, in exchange for transfer payments or money, to require the provinces be accountable or submit performance reports in areas of jurisdiction in which the federal government has no constitutional right to legislate?

• (0940)

[English]

Galen Countryman: All I can speak to there is that, under the four transfers that I spoke to, there's no requirement for provinces to report back to the federal government.

[Translation]

Jean-Denis Garon: You believe the conditions relating to the transfer of money do not constitute an obligation for the provinces to be accountable to the federal government. Is that correct?

[English]

Galen Countryman: The four transfers that we administer are block transfers, and provinces and territories are not required to report back on how they spend those funds.

[Translation]

Jean-Denis Garon: Thank you, Mr. Chair.

[English]

The Vice-Chair (Jasraj Hallan): That's time. Thank you.

For the next five-minute round, we have Ms. Cobena.

Sandra Cobena: Thank you, Mr. Chair.

I believe the right person for my questions is Mr. Larouche.

They're around your calculations.

Has your department created a cost projection for the government's announced sovereign wealth fund?

Thomas Larouche (Director General, Budget and Government Operations, Department of Finance): Thank you for the question.

Of course, you are referring to what was in the update, and announced by the Prime Minister a few days before, the Canada Strong fund.

I do high-level projections. I don't have the specific details on that measure, aside from what was disclosed in the update. We have a panel here to talk about general projections and the fiscal situation and things like that. I will have to refer specific questions on the Canada Strong fund to colleagues and get back to you.

Sandra Cobena: To be clear, the fund was not included in the spring economic update, which was actually shocking because the government is going to borrow \$25 billion to seed the fund.

To be clear, you don't have costing for the debt that will be taken out, and you don't have costing even for the infrastructure that will be needed to establish the fund.

Thomas Larouche: We do have some details in the update. There's going to be a transition office. Work is, of course, under way on this fund. I believe we have the details.

Sandra Cobena: I'd like just the costing.

Thomas Larouche: It's fairly minimal, but there is going to be a cost for the transition office.

Sandra Cobena: Do you have that cost available?

Thomas Larouche: Yes.

Sandra Cobena: The reason I'm asking, of course, is that there hasn't been too much detail given to the broader public, even though the broader public is being asked to invest in it.

When I asked the Bank of Canada governor, he had not been consulted. He does not have the cost. He directed me to the finance department, which is you.

Thomas Larouche: That's right.

To answer the previous question, the cost of the transition office is about \$6 million over six years, starting this fiscal year. The details are provided on page 86 of the update.

Sandra Cobena: Yes, but that's just the transition office.

Thomas Larouche: That's correct.

Sandra Cobena: I'm asking about the fund itself, the debt and the infrastructure needed to establish it.

Thomas Larouche: Some assumptions are made in terms of the cash requirements. The government has been pretty transparent that it is going to support this fund initially. I don't think we're very explicit in terms of the assumptions. I can say that there is an assumption that is made in terms of the financial requirements, and it's factored into our projection for—

Sandra Cobena: Could you answer in terms of dollars? How much is it going to cost?

Thomas Larouche: I don't think we are explicit in the document around the profiling, but we do factor in, obviously.... We make an assumption in terms of financial requirements and public debt charges.

Sandra Cobena: Do you have the number?

Thomas Larouche: I don't have the number with me today, but I can endeavour to—

Sandra Cobena: Could you submit the number, then?

Thomas Larouche: Yes.

Sandra Cobena: It's to have the cost, of course, of the debt itself, but also just to establish it.

Thomas Larouche: Right. I will consult with colleagues, and we'll get back to you as a follow-up. I think we have a transcript. We'll keep an eye on that, and we'll follow up on this.

Sandra Cobena: Another reason I'm asking is that Canada has a number of investment Crown corporations—namely, the Business Development Bank of Canada, the Canada Infrastructure Bank and Sustainable Development Technology Canada. We're trying to understand why there is a need for another debt-funded Crown corporation. What is the sovereign wealth fund going to do that the other Crown corporations don't already do?

● (0945)

Thomas Larouche: It's a good question. It's a fair observation. There are a number of funds. The Canada Growth Fund is another one.

This one is a bit different. As I mentioned, we have high-level details in the update. Work is currently under way.

It's not really my area of expertise, so I will not provide details there, but we can endeavour to get back to you with as much detail as we have at this moment.

Sandra Cobena: At a very high level, why is this fund needed? What is the gap that the other Crown corporations have created, the things they do not do that the fund will do?

Thomas Larouche: Again, this is not my area, so I wouldn't be able to—

The Vice-Chair (Jasraj Hallan): That's time.

We'll go on to the next five-minute round.

Go ahead, Mr. MacDonald.

Kent MacDonald (Cardigan, Lib.): Actually, I'm going to cede to Mr. Turnbull.

Ryan Turnbull (Whitby, Lib.): I want to take up the conversation Ms. Cobena started here.

I know the Canada Growth Fund uses some public investment as seed funding for its pool of capital. It's drawing in private capital, but on concessionary terms. It's explicit in the documents that this is concessionary financing. It's mostly equity, but there's some debt financing in there. The Canada Infrastructure Bank is different as well, with concessionary loans.

My understanding of the sovereign wealth fund is that it will be on commercial terms. It's equity. It's a different tool in the tool box that is unique. Just as the indigenous loan guarantee program enables first nations and indigenous communities to participate in owning equity in major projects, this particular sovereign wealth fund will allow, on commercial terms, the same for everyday Canadians who are able to invest in it.

Mr. Larouche, can you correct me if I'm wrong or confirm what I just outlined as the intention behind the sovereign wealth fund? I think that's been explicit in our documents.

Thomas Larouche: Again, it's not my area, so I can't really confirm that, but it is true that these funds have different purposes.

To follow up, we can get back to you in writing with as much detail as we can provide.

Ryan Turnbull: Okay. Thank you very much for that.

I'll pass it back to my colleague Mr. MacDonald.

Kent MacDonald: Thank you.

The Canada health transfer is a conditional transfer of funds. Can you quickly explain the difference among the transfers that your department handles? Some of them are conditional for the provinces, and some of them have no conditions attached.

Galen Countryman: Equalization is completely unconditional. Territorial formula financing is completely unconditional. The Canada health transfer is to uphold the principles of the Canada Health Act. For the Canada social transfer, the legislation requires that provinces and territories have no minimum residency requirements in the delivery of social assistance.

Kent MacDonald: Is it fair to say that provinces challenged with higher costs in providing health care...? The formula provides 5% increase up to 2028, I believe. The jurisdiction I'm from, Prince Edward Island, claims that its costs are going up 14% a year. There's no balancing act there. They could use those equalization funds to balance that out. That's the way it's designed.

Galen Countryman: The purpose of equalization is to allow provinces to provide comparable levels of service at reasonably comparable levels of taxation.

Kent MacDonald: Is there any way of catching, in particular...? In our world today, the reality is that we have a migratory workforce, especially in regions like Atlantic Canada. We have a lot of workers who go to a province like Alberta, stay there for their productive years, pay tax, increase the balance sheet in Alberta and then return to Atlantic Canada for their retirement. This puts strains on our health care system.

Is there nothing in today's formula that addresses this, other than the equalization part of the transfers?

● (0950)

Galen Countryman: No. Again, these are annual transfers and annual calculations, so there's nothing for that lifetime perspective you're speaking about.

Kent MacDonald: These transfers were designed so that all regions would have equal access to not only health care and social services but also infrastructure. It's important that smaller regions have ports, roads and airports—the whole gamut of things.

We heard earlier that the current formula dates back to 2006. Now, I know it's hard for you to express an opinion, because I heard your answer earlier, but I'm going to put you on the spot again. Do you think it's time to revisit that and look at creating a panel of expert witnesses to come up with an improved formula going forward?

The Vice-Chair (Jasraj Hallan): You'll have to answer that in another round. That's time.

Next, we have Mr. Garon for two and a half minutes.

[*Translation*]

Jean-Denis Garon: Thank you, Mr. Chair.

Mr. Countryman, could you tell me what will be the nominal increase in the Canada health transfer for the next three years?

[*English*]

Galen Countryman: I'm sorry, Mr. Garon. You asked about the rate of increase of what?

[*Translation*]

Jean-Denis Garon: Mr. Chair, on a point of order, if possible, there are issues with interpretation. It's happened before, and I want to make you aware of it. Interpretation is taking a long time. In this case, we're up to 25 seconds in delay. That's almost 20% of my time for this round.

Could I start over so I don't lose my speaking time, please?

[*English*]

Galen Countryman: So, the question is about the percentage growth rate—

[*Translation*]

Jean-Denis Garon: Just a moment, please, Mr. Countryman. We're dealing with the point of order.

[*English*]

The Vice-Chair (Jasraj Hallan): Yes, Mr. Garon, we paused your time.

[*Translation*]

Jean-Denis Garon: I would therefore start my turn over.

I'll ask my question again to make sure the witness understands it. Is that correct, Mr. Chair?

[*English*]

The Vice-Chair (Jasraj Hallan): Definitely.

[*Translation*]

Jean-Denis Garon: Thank you very much, Mr. Chair. I really appreciate it.

Mr. Countryman, could you tell me what will be the nominal growth rate, as budgeted to date, of the Canada health transfer, or CHT, for the next three years?

Galen Countryman: I don't necessarily have the rates in front of me. However, the growth rate for the CHT for 2026-27 and for 2027-28 is 5%. After that, it would follow the nominal GDP growth rate.

Jean-Denis Garon: Okay. It'll probably be a little bit lower than 5%.

Does the department know the growth rate of average health system costs in Quebec?

Galen Countryman: I don't have any figures on the growth rate of the health care system in Quebec.

Jean-Denis Garon: According to a number of calculations, including academic calculations by HEC Montréal, the growth rate for these costs, based on five major criteria, is over 6%.

Assuming those costs go up by about 6%, would you agree that rates of increase of 5% next year for the transfer, 5% the following year and then a percentage equal to the nominal GDP thereafter could constitute a gradual withdrawal from health care funding by the federal government?

Galen Countryman: With these growth rates, the Canada health transfer will continue to increase in a predictable way for provinces and territories.

Jean-Denis Garon: Okay. It's predictable, but it's below system costs.

I'm asking for your opinion. I understand you may not be allowed to give me your opinion, but I'm curious to know what it is.

Do you think Quebecers and Canadians in general are sufficiently informed or are well aware of the federal government's areas of jurisdiction and those of the provinces? Do you think the average Canadian understands what each level of government is responsible for?

Galen Countryman: I don't know what the average Canadian's level of knowledge is regarding federal and provincial jurisdictions.

• (0955)

Jean-Denis Garon: You don't want to hazard a guess.

Thank you.

[*English*]

The Vice-Chair (Jasraj Hallan): That's time.

Next, we have Mr. Kelly for five minutes.

Pat Kelly: Thank you.

We've had some talk today in this study about the lack of transparency and the lack of understanding about how transfers within the federation work. The receipt of equalization is relatively straightforward; it's reported in the public accounts. You can tell quite easily how much a province has received. For example, in 2025, the number was \$13 billion for Quebec, the single largest provincial recipient. It wasn't the largest per capita, but the largest overall.

Where can one find the precise number of how much a province has paid into equalization? The formula determines how much is paid directly to a province under the Federal-Provincial Fiscal Arrangements Act, but the public accounts are not as clear on how much money was extracted from a province under this formula. For example, could you tell the committee right now what Alberta paid in 2024-25, the last fiscal year for which we have the public accounts?

Galen Countryman: As I think we've discussed before, the equalization is funded out of federal revenues in general, so it's a consolidated revenue fund.

Pat Kelly: I understand, but you have a formula that dictates how much each province receives. You could look them up individually, but you cannot similarly see where it comes from. Could you give us the number for Alberta?

You have provinces that are non-recipients of this, but you have provinces that do receive, and it's all subject to a formula. Could you explain to the committee and Canadians how much the provinces—not just Alberta, but let's say the provinces that are not recipients of the fund...?

Galen Countryman: Again, all Canadians and Canadian businesses pay into the consolidated revenue fund for various sources of taxation and other revenues. The federal government receives it. It goes into the consolidated revenue fund, and then the Government of Canada decides to spend on various programs out of the consolidated revenue fund, one of which is equalization.

Pat Kelly: I understand. The federal government taxes Canadians in all provinces, and then it pays out only to some under a formula. The net amount that went to the seven provinces necessarily came from the other three. This is how equalization works. That's the equal part of equalization.

Can you give us a number for the other provinces?

Galen Countryman: Taxes are collected from every province into the consolidated revenue fund, and then there are payments out.

Pat Kelly: It is done by formula. This is exactly what I think Mr. Robson and other witnesses today... They talked about how opaque the system of fiscal transfers really is, when some provinces are net contributors and others are net recipients through the program of equalization.

Galen Countryman: The only other place you could look, sir, is Stats Canada. It puts out provincial economic accounts that show where federal revenues and spending go, by province.

Pat Kelly: Perhaps you could table a response.

Mr. Chair, if you don't mind, I'm going to take this moment to ask permission from the committee to move a motion that did not have quite enough notice given, but I think there have been discussions between the parties. I am going to seek the committee's permission to quickly move a motion.

The Vice-Chair (Jasraj Hallan): Do we have unanimous consent for Mr. Kelly to move a motion?

Ryan Turnbull: Liberals are certainly comfortable with giving unanimous consent for this. I think our Bloc colleague is amenable as well.

Pat Kelly: Thank you, committee members.

With that, I move:

That the committee undertake a study of Bill C-30, an Act to implement certain provisions of the spring economic update tabled in Parliament on April 28, 2026, provided that:

- a. the following witnesses be invited to appear separately, for no less than one hour each:
 - i. The Minister of Finance and National Revenue,
 - ii. The Minister of Jobs and Families, in relation to the proposed amendments to the Employment Insurance Act,
 - iii. The Minister of Transport, in relation to the proposed amendments to the Canada Transportation Act,
 - iv. The Governor of the Bank of Canada, in relation to the proposed amendments to the Bank of Canada Act,

- b. the Minister of Health and the Minister of Agriculture and Agri-Food be invited to appear for one hour, on the same panel, relating to the proposed amendments to the Canadian Food Inspection Agency Act and the Pest Control Products Act,

- c. the committee receive 4 hours of additional witness testimony, including at least one panel with departmental officials for a technical briefing, a panel of Canadians affected by high fuel, grocery and housing prices, another panel impacted by the annual alcohol excise duty inflation adjustment, and another panel featuring witnesses deemed relevant by members of the committee,

- d. the Chair only be authorized to schedule a meeting for the purposes of clause-by-clause consideration of the bill after the witnesses have appeared as prescribed by this motion.

- e. the committee receive 4 hours of additional witness testimony, including at least one panel with departmental officials for a technical briefing, a panel of Canadians affected by high fuel, grocery and housing prices, another panel impacted by the annual alcohol excise duty inflation adjustment, and another panel featuring witnesses deemed relevant by members of the committee,

- f. the Chair only be authorized to schedule a meeting for the purposes of clause-by-clause consideration of the bill after the witnesses have appeared as prescribed by this motion.

- g. the committee receive 4 hours of additional witness testimony, including at least one panel with departmental officials for a technical briefing, a panel of Canadians affected by high fuel, grocery and housing prices, another panel impacted by the annual alcohol excise duty inflation adjustment, and another panel featuring witnesses deemed relevant by members of the committee,

- h. the Chair only be authorized to schedule a meeting for the purposes of clause-by-clause consideration of the bill after the witnesses have appeared as prescribed by this motion.

This was on notice, but only briefly.

• (1000)

The Vice-Chair (Jasraj Hallan): Go ahead, Mr. Turnbull.

Ryan Turnbull: Thanks, Chair.

Thanks to my colleague, Mr. Kelly, for bringing this forward and moving this today.

I think this is quite a reasonable proposal, and it is a good example of the committee coming together to work collaboratively. Although we'll have different views on different aspects of this particular implementation act for the spring economic update, I think it's a good proposal.

The only issue I have with it is part iv. The Governor of the Bank of Canada will be hard pressed to comment on legislative changes, such as amendments to the Bank of Canada Act, which are ultimately in the purview of the Minister of Finance. We've seen the Bank of Canada governor just recently. He did a great job at the committee. I'm sure we all agree that it's great to have him as frequently as possible, but I don't think, in this case, that it's necessary.

With the Minister of Finance and National Revenue coming for one hour, which is your first ask, I think he's more than capable of speaking to the Bank of Canada Act amendments, which he is ultimately accountable for. Our government should answer for that and have good answers to your questions.

I would just propose what I would consider a friendly amendment, which is to remove part iv. Delete that line, and then I think we'll be prepared to support it—and I think other parties may be as well. However, I won't speak for Mr. Garon, because he's more than capable of speaking for himself.

The Vice-Chair (Jasraj Hallan): Mr. Garon, go ahead.

[*Translation*]

Jean-Denis Garon: I join the other parties in agreeing with this motion's principle. I think we've already had the notice of ways and means motion.

We also need to start the study of Bill C-30 soon. I think it's highly appropriate to hear from most witnesses listed in the motion before moving to the clause-by-clause consideration of Bill C-30. Ministers and officials will be welcome.

However, I wonder about inviting the Bank of Canada to talk about a legislative change that affects it. Although it's not perfect, the legislative branch, the executive branch and the judicial branch in Canada are independent from each other. I doubt the central bank would be inclined to discuss legislative changes. Our Conservative colleagues could speak a bit about this. I, for one, have reservations about inviting someone from the Bank of Canada. Moreover, I think inviting someone from the Bank of Canada will make us lose precious time we could use to question other witnesses, who could help us make better decisions and make better amendments to Bill C-30.

[*English*]

The Vice-Chair (Jasraj Hallan): Thank you, Mr. Garon.

Is it the will of the committee to unanimously pass the friendly amendment moved by Mr. Turnbull?

(Amendment agreed to)

(Motion as amended agreed to [*See Minutes of Proceedings*])

The Vice-Chair (Jasraj Hallan): Thank you, colleagues.

Is it the will of the committee to adjourn?

Some hon. members: Agreed.

The Vice-Chair (Jasraj Hallan): Thank you, colleagues.

Thank you, witnesses.

The meeting is adjourned.

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